Active Biotech

ANNUAL REPORT

2016

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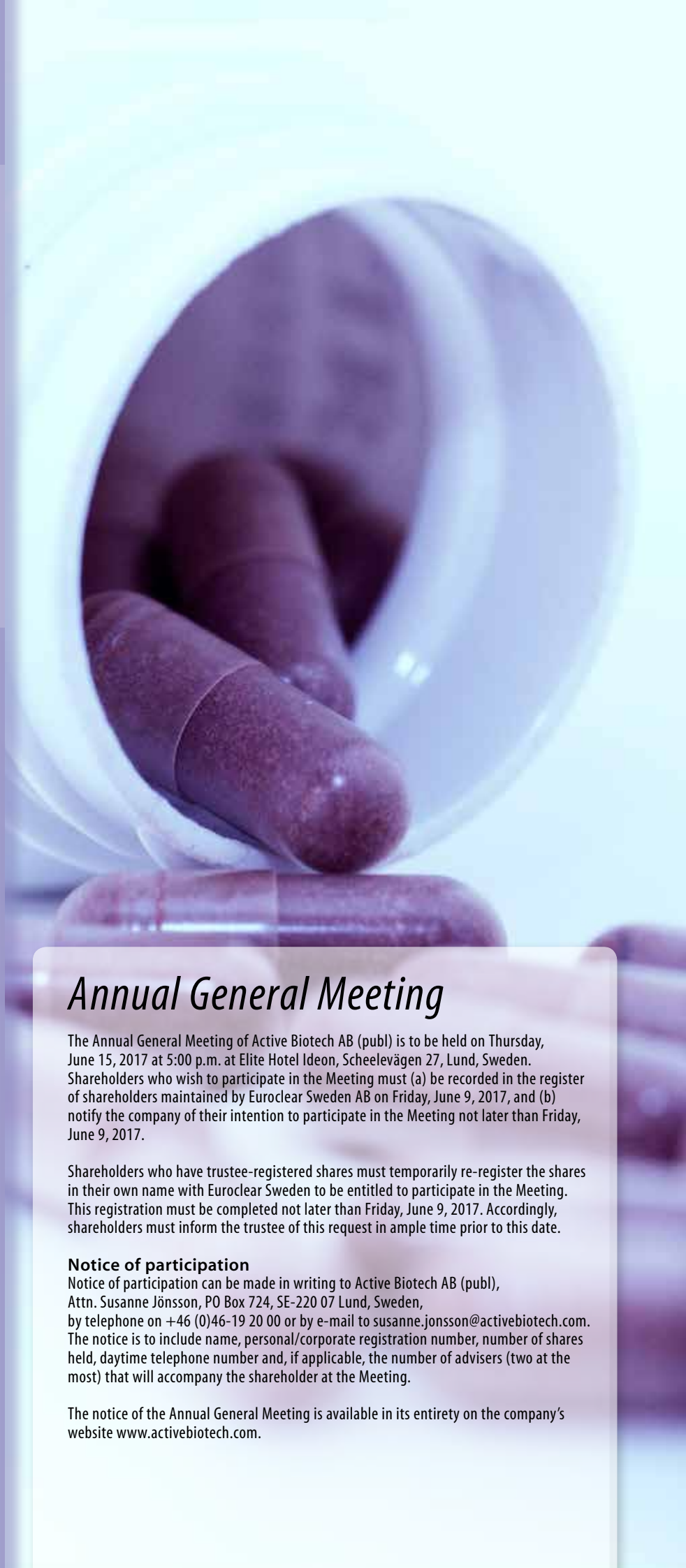
Financial information can be requested from Active Biotech AB, PO Box 724, SE-220 07 Lund, Sweden.
Telephone +46 (0)46-19 20 00.
Information can also be obtained from the company's website www.activebiotech.com.

This Annual Report contains forward-looking information regarding Active Biotech. Although we believe that our expectations are based on reasonable assumptions, forward-looking statements could be affected by factors causing the actual outcome and trend to differ materially from the forecast. The forward-looking statements comprise various risks and uncertainties. There are significant factors that could cause the actual outcome to differ considerably from that expressed or implied by these forward-looking statements, some of which are beyond our control. These include the risk that patent rights might expire or be lost, exchange-rate movements, the risk that research and development operations do not result in commercially successful new products, competition effects, tax risks, effects resulting from the failure of a third party to deliver products or services, difficulties in obtaining and maintaining official approval for products, and environmental responsibility risks.



Annual General Meeting

The Annual General Meeting of Active Biotech AB (publ) is to be held on Thursday, June 15, 2017 at 5:00 p.m. at Elite Hotel Ideon, Scheelevägen 27, Lund, Sweden. Shareholders who wish to participate in the Meeting must (a) be recorded in the register of shareholders maintained by Euroclear Sweden AB on Friday, June 9, 2017, and (b) notify the company of their intention to participate in the Meeting not later than Friday, June 9, 2017.

Shareholders who have trustee-registered shares must temporarily re-register the shares in their own name with Euroclear Sweden to be entitled to participate in the Meeting. This registration must be completed not later than Friday, June 9, 2017. Accordingly, shareholders must inform the trustee of this request in ample time prior to this date.

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

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

Active Biotech in brief

Active Biotech is a company that focuses on pharmaceutical development in medical fields in which the immune system plays a central role. The company's project portfolio primarily includes projects for the development of drugs for the treatment of neurodegenerative/inflammatory diseases and cancer.

Active Biotech currently has one project in clinical phase, laquinimod, which is out-licensed to Teva Pharmaceuticals (Teva). During 2016, the company's investigational compound ANYARA for cancer immunotherapy was out-licensed to NeoTX Therapeutics (NeoTX). NeoTX is responsible for and will finance the continued clinical development of ANYARA. In addition, Active Biotech conducts commercial activities relating to the tasquinimod (for the treatment of multiple myeloma) and paquinimod projects and the preclinical project SILC.

- **Laquinimod** is an orally administered compound under development for the treatment of neurodegenerative/inflammatory diseases. Clinical studies have shown that laquinimod can slow disability progression and reduce brain tissue loss associated with multiple sclerosis (MS). Combined with a favorable clinical safety profile, laquinimod distinguishes itself from most products in the market. The disease in which clinical development is ongoing are primary progressive multiple sclerosis (PPMS) and Huntington's disease.

  Active Biotech has an agreement with the Israeli pharmaceutical company Teva since 2004 for the development and commercialization of laquinimod.

  In the beginning of May 2017 results from the Phase III CONCERTO trial was communicated. The trial did not meet primary endpoint.

  Results from the ongoing Phase II trial ARPEGGIO are expected during second half of 2017.

- In the ANYARA project, Active Biotech is developing an immunological targeted treatment of cancer that stimulates the immune system to eradicate tumor cells. A Phase II/III trial for the treatment of renal cell cancer was concluded in 2012. The results showed that the study did not achieve its primary endpoint of showing a prolonged overall survival (OS) in the entire intention to treat (ITT) population. However, ANYARA displayed a survival benefit in a subgroup of patients. In October 2016, the company signed a development and licensing agreement with NeoTX for the development and commercialization of ANYARA within immuno-oncology.

- The results of the 10TASQ10 Phase III trial for the **tasquinimod** candidate drug were presented in April 2015. The results showed that, although the primary endpoint of extending progression-free survival was achieved, overall survival among patients was not extended. Active Biotech and its partner Ipsen made the decision to discontinue all further development of tasquinimod in prostate cancer. In March 2016, it was announced that highly favorable results were achieved in the preclinical models for multiple myeloma. A patent application for treatment of this cancer form using tasquinimod was submitted and the company is actively seeking a collaboration partner for the further development of tasquinimod within this indication. In April 2017 FDA granted Orphan Drug Designation for tasquinimod for the treatment of multiple myeloma.

- **SILC – S100A9 Inhibition by Low molecular weight Compounds** – is a preclinical project aimed at utilizing the company's own results generated around a target molecule, S100A9, and the biological mode of action of quinoline compounds. Efforts have been focused on building up a patent portfolio around the substances that interact with S100 proteins and impede their interaction with their receptors. The company has submitted three priority applications for the purpose of obtaining patent protection for three chemically unrelated substance groups. One of these patent applications has already been granted. Only commercial activities aimed at out-licensing the SILC project are currently being conducted.

- The company will also only conduct out-licensing activities for the **paquinimod** project.

- Active Biotech's partner MediGene AG is responsible for the clinical development of RhuDex®, which is currently in Phase II clinical development.

2016 – A year of transition

Before discussing 2016, I would like to comment on what happened on May 5, 2017. Together with our partner Teva, we announced that our Phase III clinical trial with the laquinimod compound for the treatment of relapsing-remitting multiple sclerosis (RRMS), CONCERTO, did not achieve its primary endpoint of reducing disability progression in those patients assessed with the Expanded Disability Status Scale (EDSS). This was a major disappointment and very surprising, since two previous large-scale clinical trials have shown the opposite results. The results are also crucial to the company's future.

2016 was characterized by completion of the company's reorganization, which began in 2015. This is now concluded and fully implemented, as is our new way of working as a virtual company. Active Biotech is now fully focused on supporting our partners, Teva and NeoTX, in their development of laquinimod and ANYARA. We are also focusing our operations on patent-supporting activities, and on commercial development of the tasquinimod, paquinimod and SILC projects.

Financing

In November 2016, the Board decided to implement a new share issue with preferential rights for the company's shareholder to secure the company's financial sustainability. The issue proceeds amounted to SEK 53.7 M after, and SEK 55.3 M before, issue expenses. This injection increased the company's capital to SEK 77.7 M at the end of 2016. The company's cost level for operating activities will now amount to SEK 12-13 M per quarter. In addition, the company owns the R&D facility in Lund, valued at SEK 325 M.

Laquinimod

The findings of the CONCERTO trial showed that laquinimod had no effect on reducing disability progression (Confirmed Disease Progression, CDP) when assessed with the Expanded Disability Status Scale (EDSS). An EDSS is a clinical parameter where a physician assesses the patient's motor function based on a pre-specified scale range. If the patient's level of disability worsens, this is confirmed three, six and nine months later (3-month CDP, 6-month CDP or 9-month CDP). In the earlier ALLEGRO and BRAVO Phase III trials, the effect on 3-month CDP was positive, and the effects on 6-month CDP and 9-month CDP were even better. These positive effects were shown by both trials separately, as well as when data was pooled from both of the trials. In the CONCERTO trial, no effect was observed on any of these parameters, which is quite remarkable. We do not have any reasonable explanation at present, but further analyses are ongoing.

In terms of other effect parameters, laquinimod significantly reduced the number of relapses in two independent assessment methods, and reduced inflammatory activity in the brain when measured with MRI. These findings are important because they show that laquinimod does, in fact, have a positive pharmacological effect in patients with MS. This was also confirmed by a 40-percent lower rate of reduction in brain volume in patients treated with laquinimod. Also worth noting here, is that this parameter is generally considered to correlate well with disability. Laquinimod's safety profile in the CONCERTO trial was good and completely congruent with findings from previous studies for a dose of 0.6 mg per day.

The ongoing Phase II clinical trial for the treatment of primary progressive multiple sclerosis (PPMS),

ARPEGGIO, and the Phase II clinical trial for the treatment of Huntington's disease, LEGATO, are progressing according to plan. We expect to present the results for ARPEGGIO later this year. It would be rhetorical to say that the outcome of these two trials will be crucial to the future of the laquinimod project. Finally, it should be noted that the commercial protection of laquinimod in PPMS consists of a filed patent extending to 2035, while laquinimod has been granted orphan drug status for the treatment of Huntington's disease with a 7-10 year period of market exclusivity.

In January 2016, we announced – together with our partner Teva – that treatment with the laquinimod dose of 1.2 mg per day in the CONCERTO trial had been discontinued. The same dosage in the ARPEGGIO trial was also discontinued. The reason for this decision was that cardiovascular adverse events had been observed in a small number of patients in the 1.2 mg dose group, whereas no such observations were made in the 0.6 mg per day dose group or the placebo group. On this basis, the Data Safety Committee (DSC) issued a recommendation that the 1.2 mg dose be immediately suspended for ethical reasons, which was immediately followed and implemented by Teva. That same month, we also announced that the 1.5 mg per day dose group in the LEGATO trial had been discontinued. No cardiovascular adverse events were observed in this trial, but the high-dose group was suspended for safety reasons, based on observations in the MS trials. The LEGATO trial is currently ongoing with two dose groups – laquinimod 0.5 mg, and laquinimod 1.0 mg per day – and one placebo group.

In 2016, the safety profile for laquinimod was further analyzed and monitored, whereby the excellent safety profile for the 0.6 mg dose was confirmed. The DSC also held several meetings during the year, without issuing any further comments. In addition to the ongoing clinical trials mentioned above, there are more than 1,000 patients in open-label extension studies, all with a dose of 0.6 mg per day. This means that, for this dose, Teva now has access to safety data from more than 12,000 patient-years. Regardless of this, both we and Teva will continue to monitor the safety profile of laquinimod very carefully.

In September 2016, we announced that Teva's Special Protocol Assessment (SPA) agreement with the US Food and Drug Administration (FDA) for the CONCERTO trial had been revoked. The reasons were purely technical. Under the agreement, no changes can be made to the protocol without the FDA's consultation and approval. Since the DSC recommended that the 1.2 mg dose be immediately suspended, no such consultation was possible, which is why the SPA agreement was automatically terminated. It should also be added that since the CONCERTO trial only contained one dose of 0.6 mg per day at that time, for which a large volume of clinical documentation is available, the value of an SPA was extremely limited.

ANYARA

Active Biotech has been seeking a commercial partner for the continued development of the ANYARA project for some time. On October 26, 2016, we could announce that an agreement had been signed with the Israeli company NeoTX Therapeutics regarding responsibility for the continued development and commercialization of ANYARA. Active Biotech received an initial payment of USD 250,000, and may receive an additional USD 70 M if the project reaches the market. In this event, Active Biotech will also be eligible to receive tiered, double-digit royalties on future sales.

I am very pleased that we have now found a competent partner to further develop the ANYARA project for the treatment of cancer patients. ANYARA is a cancer immunotherapy, which stimulates the patient's own immune system to attack the tumor. These kinds of therapies have attracted a great deal of recent attention. Given the amount of clinical information that has been accumulated in the project over the years, it is possible that continued development will prove successful.

Tasquinimod

On March 23, 2016, Active Biotech announced that tasquinimod, which was originally developed for the treatment of prostate cancer, will now be focused on the treatment of multiple myeloma (MM). We chose this indication because treatment with tasquinimod has demonstrated promising effects in preclinical animal models. These effects were so significant that we filed a patent application to cover tasquinimod for the treatment of MM, and were delighted to announce on January 9, 2017 that the application had been approved by the European Patent Office as of February 1, 2017. On April 12, 2017, we could also announce that the FDA had granted orphan drug status to tasquinimod for the treatment of multiple myeloma in the US. We are now focused on finding a partner for the continued development and commercialization of tasquinimod.

SILC and paquinimod

Two of our three filed SILC patents have now been approved by the European Patent Office, while paquinimod has been granted orphan drug status in both the US and Europe. Active Biotech is now focused on finding partners for the further development and commercialization of these projects.

Closing words

Finally, I would like to thank all of our shareholders and employees for the patience you have shown during Active Biotech's journey.

In May 2017,
Tomas Leanderson, President and CEO

Directors' Report

The Board of Directors and President & CEO of Active Biotech AB (publ), Corporate Registration Number 556223-9227, hereby submit their Annual Report and consolidated financial statements for the fiscal year January 1, 2016 to December 31, 2016. Active Biotech conducts operations as a limited liability company and has its registered office in Lund, Sweden.

Group

The Group's legal structure is built around the Parent Company Active Biotech AB, whose operations comprise pharmaceutical development, Group-wide functions and asset management.

In addition, the Group includes the wholly owned subsidiary Active Forskaren 1 KB, Lund, Sweden, which owns the property in which operations are pursued.

Active Biotech's operations

Active Biotech is a company that focuses on pharmaceutical research and development in medical fields in which the immune system plays a central role. The company's research portfolio primarily includes projects for the development of drugs for the treatment of neurodegenerative diseases and cancer.

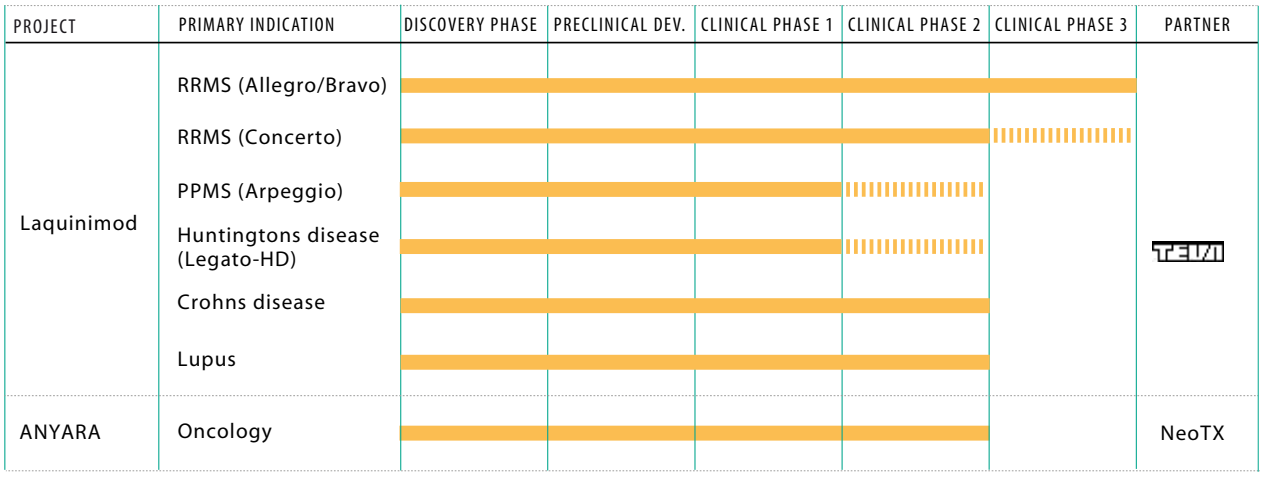
Active Biotech has pioneered the development of the quinoline class of compounds that shows attractive immunomodulatory properties. The Company possesses unique expertise and broad intellectual property in this field. This includes a deep understanding of models of autoimmune diseases, a range of composition of matter and other patents as well as technology to fully exploit the potential of the platform.

In the beginning of May 2017 results from the Phase III CONCERTO trial was communicated. The trial did not meet the study's primary endpoint. Furthermore, the results from the Phase II ARPEGGIO trial with laquinimod in primary progressive multiple sclerosis (PPMS) are expected in the second half of 2017.

The company's ANYARA project has been out-licensed to NeoTX for continued clinical development since October 2016.

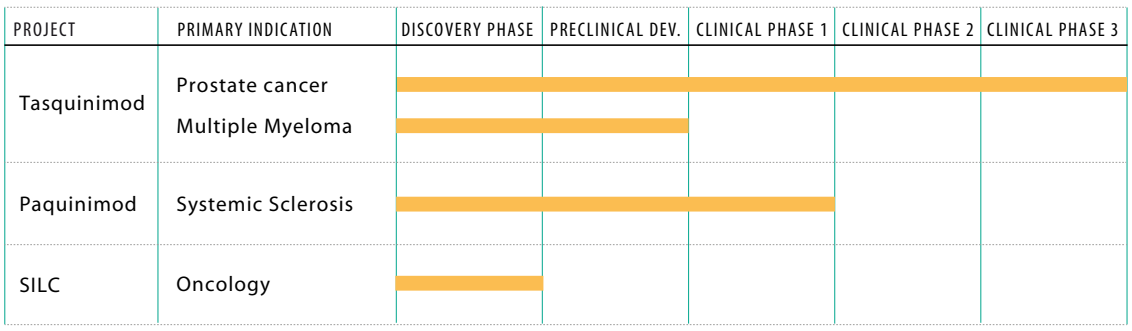
Regarding the other projects in Active Biotech's project portfolio, tasquinimod for the treatment of multiple myeloma, paquinimod and SILC, only commercial activities are currently being pursued with the aim of out-licensing the projects.

Clinical development projects



Striped = Ongoing

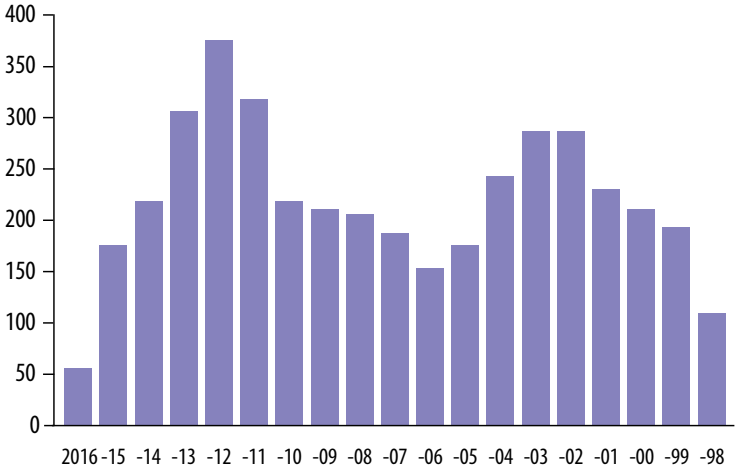
Out-licensing projects

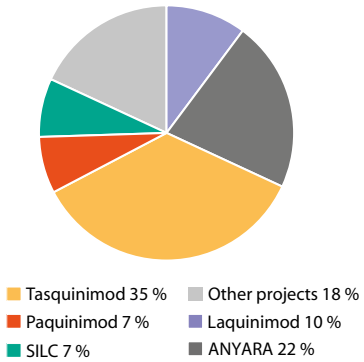


Active Biotech's research operations
At year-end 2016, the clinical development program comprised a total of five projects in clinical phase: laquinimod, ANYARA and RhuDex, which were fully financed by partners, and tasquinimod and paquinimod, which were financed by Active Biotech. In addition, the project portfolio includes the preclinical project SILC, which is fully financed by Active Biotech.

Since the formation of the company in 1998, it has invested in the range of SEK 4.2 billion in pharmaceutical development, of which approximately two-thirds of this amount in the tasquinimod, ANYARA and laquinimod projects. The three projects are or have been out-licensed and have generated about SEK 670 M in partner revenues to date. In the current agreements with Teva and NeoTX, Active Biotech can – provided that the projects reach market – receive a further USD 72 M and USD 71 M, respectively, in clinical, regulatory and commercial milestone payments. In addition, the company will receive tiered, double-digit royalties subject to future sales performance.

Research expenses 2016–1998





Progress of each project:
Laquinimod – an immunomodulatory compound for the treatment of neurodegenerative/inflammatory diseases. The project is focused on the treatment of multiple sclerosis (MS), but is also being evaluated as a potential treatment for patients suffering from Huntington's disease.

Progress of the project 2004–2016:
Following the completion of Phase I and Phase II trials by Active Biotech on a proprietary basis, an agreement was signed with Teva Pharmaceutical Industries Ltd (Teva) in June 2004 covering the development and commercialization of laquinimod.

Development and commercialization agreement with Teva:
According to the agreement, Teva performs and funds the clinical development of laquinimod. If all the clinical and commercial milestones are achieved, Teva will pay USD 92 M to Active Biotech, of which USD 22 M has been received since the signing of the agreement until year-end 2016. In addition to milestone payments, Active Biotech will also receive tiered royalty payments on sales. These will start just above 10 percent and end just below 20 percent, with the exception of sales of laquinimod in the Nordic/Baltic regions, where Active Biotech will receive a fixed royalty rate that is more than double that of the highest level in the global agreement.

Clinical development:
In **September 2006**, Teva successfully concluded an additional Phase II trial ahead of pivotal Phase III trials. In 2007, the first clinical Phase III study ALLEGRO (assessment of oral laquinimod in preventing progression of multiple sclerosis) commenced, which was a global, pivotal, 24-month, double-blind trial. The purpose was to evaluate the efficacy, safety and tolerability of laquinimod versus placebo in the treatment of relapsing remitting multiple sclerosis (RRMS). In **December 2010**, Teva announced that the ALLEGRO study, encompassing about 1,100 patients, had achieved its primary clinical endpoint at the same time as a highly favorable clinical safety profile was preserved. Laquinimod showed a statistically significant 23-percent reduction in annualized relapse rate (p=0.0024), the primary clinical endpoint, along with a significant 36-percent reduction in the risk of confirmed disability progression, as measured by Expanded Disability

Status Scale (EDSS) (p=0.0122), compared with placebo. Treatment with laquinimod was also associated with a significant reduction in brain tissue loss, as measured by a 33-percent reduction in progression of brain atrophy (p<0.0001). Furthermore, new detailed mode of action data was presented in 2010 demonstrating that laquinimod has both neuroprotective and anti-inflammatory properties. Among other results, the study showed that laquinimod treatment is associated with an increase in brain-derived neurotrophic factor (BDNF), a protein that has a key role in development and protection of nerve fibers. On **August 1, 2011**, the initial results were announced from the Phase III study BRAVO (benefit-risk assessment of Avonex® and laquinimod), which was designed to evaluate the efficacy, safety and tolerability of laquinimod compared with placebo and to provide a benefit-risk assessment comparing laquinimod and a reference arm of Interferon beta-1a (Avonex®). The BRAVO trial was a 24-month, global, multicenter, randomized, placebo-controlled trial with parallel groups, in which the effects of laquinimod were compared with placebo.

The BRAVO findings supported the direct effect of laquinimod in the central nervous system (CNS) and were in line with the results of the first laquinimod Phase III trial, ALLEGRO. The BRAVO study demonstrated a trend of reducing the annualized relapse rate in laquinimod-treated patients compared to placebo, the primary endpoint of the study, but did not reach statistical significance (p=0.075). The reduction of disability progression measured by EDSS also showed a trend in favor of laquinimod without reaching statistical significance. Furthermore, a significant reduction was observed in brain tissue loss in connection with treatment with laquinimod compared to placebo. The randomization process for BRAVO was adequately performed and according to the study protocol; however, placebo and treatment study groups showed dissimilarity in two baseline magnetic resonance imaging (MRI) characteristics. When this imbalance was corrected according to a standard and pre-specified sensitivity analysis included within the original statistical analysis plan (SAP), laquinimod demonstrated a significant reduction in the annualized relapse rate (21.3 percent, p=0.026), as well as a significant reduction in the risk of disability progression measured by EDSS (33.5 percent, p=0.044). Also in this analysis, laquinimod demonstrated a significant reduction of brain atrophy (27.5 percent, p<0.0001). Additionally, as in ALLEGRO, the BRAVO study showed that laquinimod has a very favorable safety and tolerability profile. In **November 2011**, Teva announced that, following discussions with the US Food and Drug Administration (FDA), it had decided to carry out one additional clinical study prior to filing a new drug application (NDA) in the US. The FDA offered its assistance to cooperate with Teva in the design of this study. In **March 2012**, results from the ALLEGRO study were published in The New England Journal of Medicine. Data from the completed Phase III trial showed that laquinimod reduced inflammatory disease activity as measured by clinical relapses and Magnetic Resonance Imaging (MRI), slowed disability progression and decreased brain tissue loss, while maintaining a favorable safety and tolerability profile in RRMS patients. On **July 17, 2012,** it was announced that the European Medicines Agency (EMA) accepted the marketing authorization application (MAA) for laquinimod for treatment of RRMS and that the scientific review had thus commenced. This acceptance of the EMA filing for review triggered a milestone payment of USD 5 M from Teva. The marketing authorization application submission was supported by a pooled analysis of data from the ALLEGRO and BRAVO trials involving more than 2,400 patients treated over a period of two years.

Effect compared to placebo (p value)

	ALLEGRO Laq vs. placebo	BRAVO* Laq vs. placebo	Integrated analysis Laq vs. placebo
Rate of relapse	23% (0.0024)	21% (0.03)	21.4% (0.0005)
Disability progression (3 months CDP)	36% (0.0122)	33.5% (0.04)	34.2% (0.0017)
Brain atrophy	32.8% (< 0.0001)	27.4% (0.0001)	30% (< 0.0001)

* After corrections according to the predefined statistical analysis plan.

In **August 2012**, Teva announced that a third Phase III laquinimod trial for the treatment of RRMS would be launched. The trial, CONCERTO, is evaluating two doses of laquinimod (0.6 mg and 1.2 mg) and encompasses about 2,100 patients being treated for up to 24 months. The primary outcome measure of the study is confirmed disability progression as measured by EDSS. The design of this trial has been prepared by Teva in collaboration with the FDA under a Special Protocol Assessment (SPA) process. This means that an agreement has been concluded between the parties that entails that the study's design meets the current scientific and regulatory requirements for a registration application. On **October 22, 2012**, positive Phase II clinical data was announced for laquinimod for the treatment of active Crohn's disease (CD) at the 20th United European Gastroenterology (UEG) Week Conference. The findings demonstrated that treatment with laquinimod 0.5 mg per day resulted in a robust, early and consistent effect on remission (48.3 percent vs. 15.9 percent of patients, respectively) and response rates (62.1 percent vs 34.9 percent of patients, respectively) in patients with moderate-to-severe CD versus placebo. On **March 3, 2013**, it was announced that the first patient had been enrolled in the CONCERTO study – the third

Phase III placebo-controlled study designed to evaluate the efficacy, safety and tolerability of laquinimod in patients with RRMS. On **March 21, 2013**, data was presented at the 65th Annual Meeting of the American Academy of Neurology (AAN) showing that early treatment with laquinimod demonstrated significant benefit in terms of slowing disability progression compared to delayed treatment. The data presented was based on an extension of the Phase III ALLEGRO trial, which compared the effectiveness of laquinimod in patients who received 36 months (early-start) versus those who received 24 months of laquinimod treatment after 12 months on placebo (delayed-start).

Of the 864 RRMS patients who participated in the ALLEGRO trial, 97 percent participated in the extension study and 87 percent completed one year of the extension phase. Throughout the study, the progression-free survival for early-start patients was longer than those with a delayed start (11.8 percent risk of confirmed disability progression vs. 16.7 percent, HR = 0.62, $p < 0.0038$). The study also supported a favorable safety and tolerability profile of laquinimod. On **June 12, 2013**, positive results from a Phase IIa study of laquinimod in active lupus nephritis were reported. The study was designed to assess safety, tolerability and clinical efficacy of laquinimod in 46 patients with active lupus nephritis. The clinical trial was a multicenter, double-blind, placebo-controlled, exploratory study of 46 patients with active lupus nephritis that evaluated laquinimod (0.5 mg and 1.0 mg per day) versus placebo in combination with standard of care treatment. The study showed that at 24 weeks, 62.5 percent of patients who received 0.5 mg per day of laquinimod achieved renal response, compared to 33.3 percent of patients who were administered placebo. Reported adverse events (AEs) were comparable in both the active treatment and placebo patient groups. In **October 2013**, a pre-planned analysis of over 1,000 patients was published online in the Journal of Neurology, Neurosurgery & Psychiatry (JNNP) demonstrating the benefits of laquinimod on neurodegeneration. Laquinimod-treated patients accumulated significantly less brain tissue damage caused by neurodegeneration, compared to placebo in MRI analyses. On **October 4**, it was announced that post-hoc analyses of the Phase III studies ALLEGRO and BRAVO were presented at the 29th Congress of the European Committee for Treatment and Research in Multiple Sclerosis (ECTRIMS). Pooled data analysis of the above studies supports that laquinimod may have an effect on both inflammation and the broader underlying mechanisms associated with disease progression in RRMS. On **November 4, 2013**, it was announced that Teva planned to initiate a further clinical trial, LIBRETTO, to evaluate the efficacy, safety and tolerability of two doses of laquinimod (0.6 mg and 1.2 mg per day), compared to interferon beta-1a, in patients with RRMS. The primary endpoint of the study was brain atrophy. On **January 24, 2014**, laquinimod received a negative opinion by the Committee for Medicinal Products for Human Use ("CHMP") of the EMA. The CHMP's opinion was based on the view that laquinimod's positive effect on reducing relapses did not outweigh the potential risks. Although the CHMP found that laquinimod has a positive effect on slowing disability in MS patients, this finding did not alter the decision. In the risk assessment, the CHMP focused on findings in animal studies, performed in parallel with the pivotal clinical trials, relating to the potential risk of fetal damage and the potential increased risk of cancer. None of these effects have been observed in the comprehensive patient material, comprising 7,490 patient years in total, with some patients being exposed for more than seven years and tolerated treatment well. Teva requested a re-examination of the CHMP's opinion. On **February 19, 2014**, it was announced that Teva had decided not to proceed with the randomization stage of the planned LIBRETTO trial for the treatment of RRMS since the design was no longer aligned with the regulatory strategy.

On **May 23, 2014**, it was announced that CHMP of the EMA confirmed its January 24, 2014 risk-benefit opinion and therefore recommended against approval for the treatment of RRMS in the EU at this time. Teva and Active Biotech remain fully committed to the laquinimod clinical development program for treatment of multiple sclerosis and are continuing to evaluate the CHMP feedback to determine potential adjustments and additions to the current clinical development program. On **August 18, 2014**, it was announced that Teva will initiate a Phase II clinical trial to evaluate the efficacy and safety of laquinimod for the treatment of Huntington's disease. On **September 12, 2014**, new follow-up data was presented evaluating the clinical safety of laquinimod in RRMS patients who were treated with laquinimod in Phase II, Phase III and open-label extension studies for two or more years. In the pooled safety analysis, rates of adverse events (AEs) and serious AEs were lower in the open-label extensions than in the core studies and less than 3 percent of patients discontinued treatment due to AEs during these extensions. On **November 4, 2014**, it was announced that Teva will expand the clinical development program for laquinimod by initiating the ARPEGGIO study that will evaluate the potential of laquinimod for the treatment of primary progressive multiple sclerosis (PPMS). It was also announced that the first patient had been screened in the LEGATO-HD study that will evaluate laquinimod in Huntington's disease. On **April 23, 2015**, it was announced that the first patient had been enrolled in the Phase II study ARPEGGIO. The study will evaluate two doses of laquinimod (0.6 mg and 1.5 mg per day) compared with placebo in patients with PPMS. The study includes about 375 patients in the US, Canada and Europe. The primary endpoint of the study is brain atrophy, defined

as the percentage brain volume change as measured with MRI. On **June 25, 2015**, it was announced that the Phase III study, CONCERTO, had been fully enrolled and that study completion would occur when either 260 EDSS events are reached or all patients complete 24 months of study treatment. The results of the study are expected to be available in the first half of 2017.

On **January 4, 2016**, it was announced that the high dose groups of laquinimod in studies in multiple sclerosis (MS) (CONCERTO and ARPEGGIO) had been discontinued after the occurrence of cardiovascular events, none of which were fatal, in eight patients. The change was made at the recommendation of the Data Monitoring Committee (DMC) overseeing the two active clinical studies in MS. The DMC identified an imbalance in the number of cardiovascular events in the studies. Seven events were observed in patients receiving laquinimod daily at 1.2 mg for treatment of relapsing remitting MS (RRMS) in the Phase III CONCERTO trial. No events occurred in the 0.6 mg or placebo groups. CONCERTO has 2,199 patients with 3,070 years of patient experience. One event was observed in the 1.5 mg daily-dose arm of the Phase II ARPEGGIO trial in primary-progressive MS (PPMS). ARPEGGIO has enrolled 191 patients and has 35 years of patient experience. Teva is now notifying trial sites to discontinue the higher doses immediately in both trials and will encourage participants to continue follow ups. Both trials, CONCERTO and ARPEGGIO, are continuing the lower-dose arms (0.6 mg daily), and participants in the trials will be provided with an update to confirm re-consent for participation. The DMC did not identify a cardiovascular signal with the lower dose but is recommending long-term monitoring. Teva has previously carried out comprehensive studies of laquinimod at 0.6 mg per day and long-term extension studies with this dose are ongoing without any indications of cardiovascular events. On **January 11, 2016**, it was announced that Teva would amend the trial design of a Phase II study of laquinimod in Huntington's disease. The amendment consists of dropping the highest of three doses (1.5 mg per day) in the trial while keeping two remaining active doses (0.5 and 1 mg per day) unchanged. This is a precautionary measure in the interest of patient safety being suggested by Teva to the Data Safety Monitory Board (DSMB) for the LEGATO-HD trial. The DSMB accepted the recommendation after reviewing data which observed cardiovascular incidents in patients receiving the high doses of laquinimod in two multiple sclerosis trials as reported on January 4, 2016. No cardiovascular events have been observed for any dose of the LEGATO-HD trial. Teva will continue in its commitment to study laquinimod in Huntington's disease. Currently the mechanism of the cardiovascular events in the MS trials remains unknown. Although no specific time-to-event patterns have been identified, cardiovascular risk factors and demographics may play a role. On **September 9, 2016**, it was announced that the FDA had rescinded the SPA for the Phase III CONCERTO clinical trial evaluating laquinimod in relapsing remitting multiple sclerosis (RRMS). The Phase III CONCERTO trial has subsequently continued with one dose (0.6 mg per day) versus placebo in accordance with the original schedule. Teva plans to use this pivotal trial as a basis for its marketing authorization application for laquinimod in the US and EU. In the beginning of May 2017 results from the Phase III CONCERTO trial was communicated. The trial did not meet the study's primary endpoint. Results from the ongoing Phase II trial ARPEGGIO are expected during second half of 2017.

Tasquinimod – an immunomodulatory, anti-metastatic substance for the treatment of prostate cancer

Significant events during the period 2004 – 2016:

In the tasquinimod project, Active Biotech is developing an immunomodulatory anti-metastatic substance, tasquinimod, which affects the tumor's ability to grow and spread. Tasquinimod was primarily developed for the treatment of prostate cancer, among other indications.

Following the conclusion of an initial clinical Phase I trial involving healthy volunteers in 2004, a clinical Phase I dose-escalation program with prostate cancer patients commenced in the latter part of the same year, with the objective of studying the safety of tasquinimod. Patients continued treatment in a follow-up study that aimed to document long-term tolerance and safety. The US Food and Drug Administration's (FDA) review of the investigational new drug (IND) application was completed in August 2007 and a Phase II proof-of-concept study was initiated later in the same year. This study was a 2:1 randomized, placebo-controlled, double-blind Phase II study of 1 mg per day of tasquinimod versus placebo. It comprised 206 symptom-free patients in the US, Canada and Sweden with metastatic, castrate-resistant prostate cancer. The primary clinical endpoint of this study was to reduce the proportion of patients displaying disease progression after six months of tasquinimod therapy compared with placebo. A secondary clinical endpoint of importance for this group of patients included time to clinical progression. It was announced in **December 2009** that these endpoints had been achieved. The results from the trial were presented at the 46th Annual Meeting of the American Society of Clinical Oncology (ASCO) held on June 4-8, 2010. Results from the study showed that disease progression was 31 percent for patients treated with tasquinimod compared with 66 percent for placebo-treated patients ($p<0.0001$). The median progression-free survival (PFS) was 7.6 months for the tasquinimod group, compared with 3.2 months for the placebo group ($p=0.0009$). A pivotal Phase III trial was initiated in March 2011. The study (10TASQ10) was a global, randomized, double-blind, placebo-controlled Phase III trial in patients

with metastatic castrate-resistant prostate cancer (CRPC). The aim of the study is to confirm tasquinimod's effect on the disease, with radiological progression-free survival (PFS) as the primary clinical endpoint and overall survival (OS) as secondary clinical endpoint. On **April 18, 2011**, it was announced that Active Biotech had entered into a broad partnership with Ipsen to co-develop and commercialize tasquinimod. In **September 2011**, the Journal of Clinical Oncology published the complete results from the Phase II study of tasquinimod. Tasquinimod significantly slows disease progression and improves PFS in patients with CRPC, alongside a retained favorable safety profile. Of 201 evaluable patients, the six-month progression-free proportion for tasquinimod and placebo treatment groups were 69 percent and 37 percent, respectively ($p<0.0001$), with a median PFS of 7.6 vs. 3.3 months ($p=0.0042$).

In **January 2012**, Active Biotech announced the launch of an investigator-sponsored clinical Phase I trial (CATCH), led by Dr. Andrew Armstrong at Duke Cancer Institute, US. The primary objective for the trial is to determine the recommended dose of tasquinimod in combination with cabazitaxel (Jevtana) in patients with CRPC. Secondary objectives include efficacy as measured by PFS and OS. The study includes about 30 patients.

In **February 2012**, Active Biotech and Ipsen reported long-term safety data from the Phase II study of tasquinimod at the European Association of Urology (EAU) Congress. Treatment side effects were mild to moderate, manageable and less frequent after two months of therapy. On **May 21, 2012**, it was reported that 600 patients were randomized in the Phase III trial of tasquinimod in patients with CRPC. Under the agreement, Active Biotech received a milestone payment from Ipsen amounting to EUR 10 M. In **June 2012**, Active Biotech and Ipsen reported survival data from the Phase II study of tasquinimod at the 2012 ASCO Annual Meeting. The results showed that overall survival times after treatment with tasquinimod were longer than previously reported in this patient group. Median OS was 33.4 vs. 30.4 months (tasquinimod vs. placebo). A preliminary sub-group analysis showed that the median OS observed in patients with bone metastases was 34.2 vs. 27.1 months (tasquinimod vs. placebo). In **October 2012**, data on biomarkers from the Phase II study of tasquinimod was presented at the ESMO 2012 congress. The results support an effect of tasquinimod on both immunomodulation and angiogenesis, which positions tasquinimod as a potentially unique therapeutic approach. On **October 3, 2012**, Ipsen announced the launch of a switch maintenance Phase II trial with tasquinimod in CRPC patients and, on **October 19**, the company announced its intention to initiate a proof-of-concept study into four cancer forms: advanced or metastatic hepatocellular, ovarian, renal cell and gastric carcinomas. On **December 10, 2012**, Active Biotech and Ipsen announced that the tasquinimod Phase III trial had been fully enrolled, encompassing a total of 1,245 patients at about 250 hospitals in 37 countries, which triggered a contractual milestone payment from Ipsen of EUR 10 M. On **April 25, 2013**, Active Biotech and Ipsen announced that the analysis plan for the ongoing Phase III study (10TASQ10) had been updated. In the updated analysis plan, the companies plan to conduct the primary PFS analysis for the 10TASQ10 trial in 2014, at the same time as the first interim OS analysis. On **June 3, 2013**, Dr. Andrew J. Armstrong from the Duke Cancer Institute presented follow-up data from the completed Phase II trial of tasquinimod in prostate cancer at the 2013 ASCO Annual Meeting held in Chicago, in the US. Using automated software for analysis of the bone scan index (BSI), a quantitative measure of tumor burden in bone, the relation of the BSI with other prognostic biomarkers and overall survival were analyzed in a data set from the previously concluded Phase II tasquinimod study. A delay in objective radiographic bone scan progression with tasquinimod using the BSI analysis was observed, and this delay may be associated with improvements in survival. On **October 9, 2013**, it was announced that Active Biotech, under the terms of the co-development and commercialization agreement on the candidate drug tasquinimod, had received a milestone payment of EUR 12 M from Ipsen. In **February 2014**, Ipsen launched a randomized, double-blind, placebo-controlled Phase III study of tasquinimod in chemo-naive CRPC patients in Asia. On **September 27, 2014**, Ipsen announced the preliminary results of the clinical Phase II proof-of-concept study in four cancer indications. The study for the treatment of hepatocellular carcinoma is continuing with results expected in 2015. The results do not support the further development of tasquinimod for the treatment of patients with advanced ovarian, renal cell or gastric carcinomas. The primary endpoint of the study was progression-free survival (PFS) at a predefined time for each cohort.

The results of the Phase III study in tasquinimod were presented on **April 24, 2015**. While the study showed that tasquinimod reduced the risk of radiographic cancer progression or death compared to placebo (rPFS, HR=0.69, CI 95%: 0.60 – 0.80) in patients with metastatic castration resistant prostate cancer who have not received chemotherapy, tasquinimod did not extend overall survival (OS, HR=1.09, CI 95%: 0.94 – 1.28). Efficacy results together with preliminary safety data did not support positive benefit risk balance in this population. Therefore, Active Biotech and Ipsen decided to discontinue all studies in prostate cancer. On **September 28, 2015**, the final results from the tasquinimod Phase III trial were presented at the European Cancer Congress (ECC 2015). Final results showed that tasquinimod treatment resulted in a prolonged radiographic progression-free

survival (rPFS), 7.0 vs. 4.4 months (central assessment), similar to an earlier Phase II study. However, the positive effect on rPFS did not translate into an improved OS (HR 1.097, 95% CI: 0.938 – 1.282). Tasquinimod safety was in general manageable and similar to what was observed during the earlier Phase II study.

The results of the tasquinimod project were presented at the ASCO GU (American Society of Clinical Oncology, GenitoUrinary) Symposium on **January 21-23, 2016**. An expanded analysis of the secondary endpoints for the Phase III study 10TASQ10 was presented alongside results from the Phase II study with tasquinimod as a maintenance therapy following docetaxel treatment, which was carried out by Active Biotech's partner Ipsen. Results from the investigator-sponsored clinical Phase I trial CATCH, in which tasquinimod was combined with the cytostatic agent cabazitaxel, were also presented. Analysis of the secondary endpoints for the Phase III study 10TASQ10 showed that, with regard to tasquinimod, the results from both radiographic and PSA-based endpoints were favorable. However, as previously communicated, overall survival (OS) was not extended, prompting the discontinuation of all further development within prostate cancer. Results from the Phase II study of tasquinimod to evaluate the clinical efficacy of tasquinimod used as maintenance therapy in patients with metastatic castrate-resistant prostate cancer (mCRPC) who have not progressed after a first-line docetaxel-based chemotherapy showed extended progression-free survival (median rPFS 7.32 months versus 5.24 months for placebo). The objective of the investigator-sponsored clinical Phase I study CATCH was to determine the recommended dose of tasquinimod in combination with cabazitaxel in patients with mCRPC. The results demonstrated that the recommended dose of tasquinimod in combination with cabazitaxel is 0.5 mg per day. **On March 23, 2016**, it was announced that highly favorable results were achieved in the preclinical models for multiple myeloma. A patent application has been filed for the treatment of multiple myeloma with tasquinimod, which would entail patent protection until 2035. The company intends to seek a collaboration partner for the further development of tasquinimod within this indication.

ANYARA – fusion protein for immunological treatment of renal cell cancer

In the ANYARA project, Active Biotech developed an immunological targeted treatment of cancer that stimulates the immune system to eradicate tumor cells.

Progress of the project 2006–2016:
In 2006, three clinical Phase I studies of ANYARA for the treatment of advanced non-small cell lung cancer, renal cell carcinoma and pancreatic cancer were successfully concluded. The median survival of 26.2 months observed for patients with advanced renal cell cancer and treated with ANYARA was longer than expected. Results from two Phase I studies of ANYARA were published in the Journal of Clinical Oncology, where ANYARA was studied both as a single agent (monotherapy) and in combination with an established tumor therapy (Taxotere). The results showed that ANYARA was well tolerated both as monotherapy and in co-administration. In **July 2007**, ANYARA was granted orphan medicinal product status, for the indication renal cell cancer, by the European Medicines Agency's (EMA) expert committee. A combined Phase II/III trial for the treatment of renal cell cancer was initiated at the end of 2006 at about 50 clinics in Europe. The trial was a randomized study of ANYARA in combination with interferon-alpha, compared with only interferon-alpha, in patients with advanced renal cell cancer. The primary endpoint for this study was prolonged overall survival (OS) and it included 513 patients. In **May 2008**, following the enrollment of approximately 250 patients in the trial, an interim analysis was conducted with positive results. The study was fully enrolled in June 2009. In **January 2013**, the initial results were presented from the concluded Phase II/III clinical study. The results showed that the ANYARA Phase II/III study did not achieve its primary endpoint of showing a prolonged OS in the intention to treat (ITT) population. A subgroup, comprising about 25 percent of the patients with low/normal levels of base line IL-6 and expected antibody levels against the anti-superantigen element of ANYARA, showed a statistically significant treatment advantage on both OS and progression-free survival (PFS). OS was 63.3 months for the group that received ANYARA combined with interferon-alpha vs. 31.1 months for the group that received interferon-alpha alone (p=0.020, HR=0.59) and PFS 13.7 vs. 5.8 months (p=0.016, HR=0.62). In North America and Western Europe, this subgroup accounts for 40-50 percent of the total number of advanced renal cell cancer patients. The safety profile was favorable and in line with that observed earlier. On **June 3, 2013**, it was announced that data from the completed Phase II/III study in ANYARA had been presented by the coordinating investigator Professor Robert Hawkins at the 2013 ASCO Annual Meeting in Chicago, US. On **September 12, 2013**, it was announced that Professor Tim Eisen, Department of Oncology, Cambridge University Hospitals NHS Foundation Trust, UK, had presented a new and more detailed analysis at the European Cancer Congress 2013 (ECCO) held in Amsterdam, the Netherlands, that provides further support to the previous findings that low baseline levels of pre-formed antibodies against ANYARA or low levels of the cytokine IL-6, independently predict anti-tumor efficacy after ANYARA+Interferon-alpha treatment. The analysis showed clear trends of increased OS in patients with decreasing IL-6 or anti-ANYARA antibodies. Based

on the results of the completed Phase III study in which ANYARA displayed a survival benefit in a subgroup of patients, Active Biotech discussed the continued development of ANYARA with the FDA and EMA in 2013.

On **October 26, 2016**, it was announced that a licensing agreement had been entered into with NeoTX Therapeutics Ltd (NeoTX) for Active Biotech's investigational compound Naptumumab estafenatox ("ANYARA") for cancer immunotherapy. NeoTX will be responsible for and finance the worldwide clinical development and commercialization of ANYARA. The total deal value amounts to USD 71 M and is contingent upon achievement of clinical, regulatory and commercial milestones. Active Biotech will receive USD 250,000 as an initial payment. In addition, NeoTX will pay Active Biotech tiered, double-digit royalties on future market sales.

Paquinimod – novel oral immunomodulatory compound for the treatment of systemic sclerosis

Paquinimod is a quinoline compound primarily intended for the treatment of systemic sclerosis. Paquinimod has been granted orphan medicinal product status in the EU (2011) and orphan drug status in the US (2014).

Progress of the project 2004–2016:

The first clinical Phase I dose-escalation study, comprising 30 healthy volunteers, was started at the Karolinska University Hospital in Stockholm, Sweden, at the end of 2004 and was successfully completed in 2005. The results showed that paquinimod is well tolerated at all of the tested dosage levels in single and multiple doses and that the compound is suitable to be administered as an oral, daily treatment. The clinical development program continued with a Phase Ib trial in systemic lupus erythematosus (SLE) patients, which commenced in December 2005. The study primarily documented safety and pharmacokinetic properties, but also monitored a number of biological markers to determine the effect of paquinimod on disease progression. The study was concluded in 2008 and data from the trial confirmed the previously reported favorable safety profile, and demonstrated effects on markers for the SLE disease. During 2008 and 2009, follow-up data from the concluded Phase Ib trial was presented at scientific conferences. In **November 2011**, the article "Pharmacokinetics, tolerability, and preliminary efficacy of ABR-215757, a new quinoline-3-carboxamide derivative, in murine and human SLE" was published in the online edition of the Arthritis & Rheumatism journal (2012 May; 64(5):1579-88). The explorative clinical study that commenced in 2009 comprising 13 SLE patients in Sweden and Denmark was concluded in 2010 and a reduction in disease activity was observed in several patients. In 2010, Active Biotech decided to initiate development of paquinimod to address the indication systemic sclerosis, a rare autoimmune disease for which paquinimod was granted orphan medicinal product status in **February 2011** in Europe. An explorative clinical study in systemic sclerosis was initiated in **December 2011** and included nine patients. The primary endpoint of the study is the effect on biomarkers that correlate with disease activity. The clinical study in systemic sclerosis was concluded in the latter part of 2012.

Evaluation of the clinical trial in systemic sclerosis demonstrated a favorable safety profile and effects on disease-related biomarkers in line with paquinimod's mode of action. The next step in clinical development is to verify these effects in a controlled Phase II study that can form the basis for a pivotal study in this patient group. On **January 17, 2014**, paquinimod, for the treatment of systemic sclerosis, was granted orphan drug status by the US Food and Drug Administration (FDA). Orphan drug status in the US provides advantages such as market exclusivity for a period of seven years upon approval.

The company will not commence the further clinical development of paquinimod on an independent basis and only commercial activities to out-license paquinimod are being conducted.

RhuDex® – a novel oral treatment for autoimmune diseases

RhuDex is an orally active compound for the treatment of autoimmune diseases and originates from Active Biotech's patented CD80 antagonists, out-licensed in 2002 to MediGene AG (MediGene). MediGene is responsible for the development and carries the related costs of the clinical program.

Progress of the project 2004–2016:

Following successful preclinical development work, a candidate drug was selected in 2004 under the name of RhuDex, an orally administered small molecule primarily intended for the treatment of rheumatoid arthritis (RA). Phase I studies of RhuDex commenced during the spring of 2005, yielding a small milestone payment for Active Biotech. In **March 2006**, the company could report that MediGene had successfully concluded two Phase I studies in which safety, tolerability and pharmacokinetic properties had been studied in healthy volunteers. A Phase IIa dose-escalation study in 35 RA patients was initiated in 2007 and, in 2008, positive data from the trial was reported. Further preclinical trials were completed in 2010. In 2013, a clinical Phase Ia study was initiated for treatment of primary biliary cirrhosis (PBC), a chronic liver disease. This is being carried out to confirm the mode of action of RhuDex in autoimmune diseases and facilitate the continued development of the drug. In **March 2014**, MediGene signed an agreement with the company Dr. Falk Pharma GmbH for the development and commercialization of RhuDex in hepatology and gastroenterology.

SILC – preclinical project based on the mode of action of quinoline compounds

Progress of the project 2008 – 2016:
Active Biotech's SILC project was initiated in 2008. SILC stands for "S100A9 Inhibition by low molecular weight Compounds," and the project is focused on S100A9 as the target molecule for the treatment of cancer. A chemical library of substances has been screened for binding to the target molecule and a lead substance with good properties for further development has been identified. Three priority applications have been filed for the purpose of obtaining patent protection for three, chemically unrelated, substance groups, two of which have been approved in Europe and 2016 and 2017.

Only commercial activities aimed at out-licensing the SILC project are conducted.

Comments on the financial development

Condensed income statement with comments

	2016 Full year	2015 Full year	2014 Full year	2013 Full year	2012 Full year
Sales	19.0	16.3	10.4	116.0	227.9
Administrative expenses	-15.9	-18.0	-16.9	-16.9	-15.8
Research expenses	-58.2	-176.2	-221.9	-308.1	-375.3
Total operating expenses	-74.1	-194.2	-238.8	-325.0	-391.1
Operating loss	**-55.1**	**-177.9**	**-228.4**	**-209.0**	**-163.2**
Loss for the year	-59.6	-193.5	-231.5	-212.1	-175.0

Consolidated net sales for full-year 2016 amounted to SEK 19.0 M (16.3) and included service and rental revenues of SEK 16.7 M (16.2) and SEK 2.3 M in an initial payment from NeoTX relating to the out-licensing agreements entered into during the year for the continued clinical development and commercialization of ANYARA.

Specification of net sales (SEK million)

	2016 Full year	2015 Full year	2014 Full year	2013 Full year	2012 Full year
Revenue from out-licensing and partnership agreements	2.3	–	–	104.1	212.8
Rental revenues	12.8	9.2	7.3	7.0	7.9
Other revenues	4.0	7.0	3.1	4.9	7.3
Total	19.0	16.3	10.4	116.0	227.9

Operating expenses

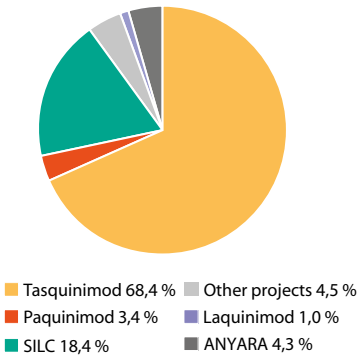
	2016	2015	2014	2013	2012
Administrative expenses	-15.9	-18.0	-16.9	-16.9	-15.8
Research expenses	-58.2	-176.2	-221.9	-308.1	-375.3
Total operating expenses	-74.1	-194.2	-238.8	-325.0	-391.1

Research expenses 2012–2016

Over a five-year period, the company's research costs amounted to just over SEK 1.1 billion, of which tasquinimod alone represented about 68 percent of the total amount, reflecting the cost of conducting a major, global clinical Phase III trial on a proprietary basis.

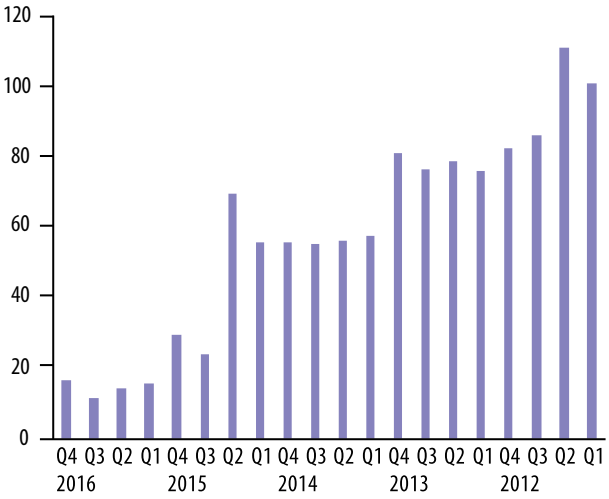
The Phase III trial involving tasquinimod for the treatment of patients with prostate cancer was initiated in March 2011 and the final study results were reported in April 2015. The research expenses peaked in 2012 and have subsequently declined in line with the design of the trial.

Project expenses 2012–2016

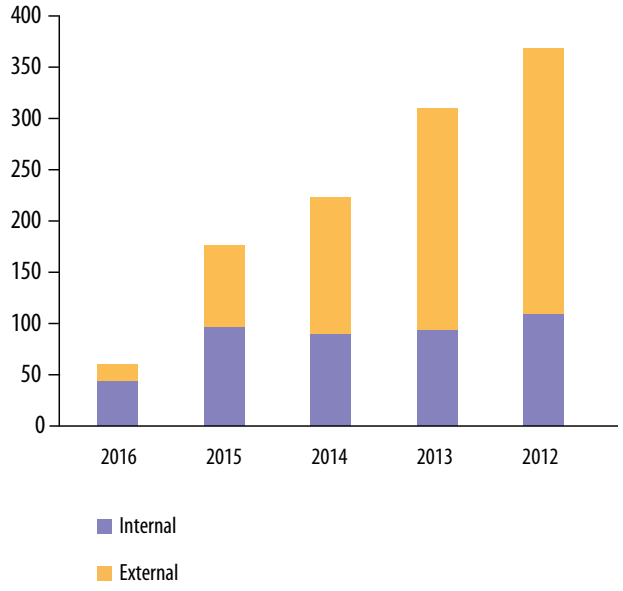


The proportion of externally purchased research services (clinics, production, patents, etc.) fell from 71 percent of the total research expenses in 2012 to 18 percent in 2016. Internal expenses – personnel, premises, consumables, etc. – were relatively stable during the 2012-2015 period. However, the personnel reductions that were decided and implemented in 2015 resulted in a halving of costs in 2016 compared with 2015.

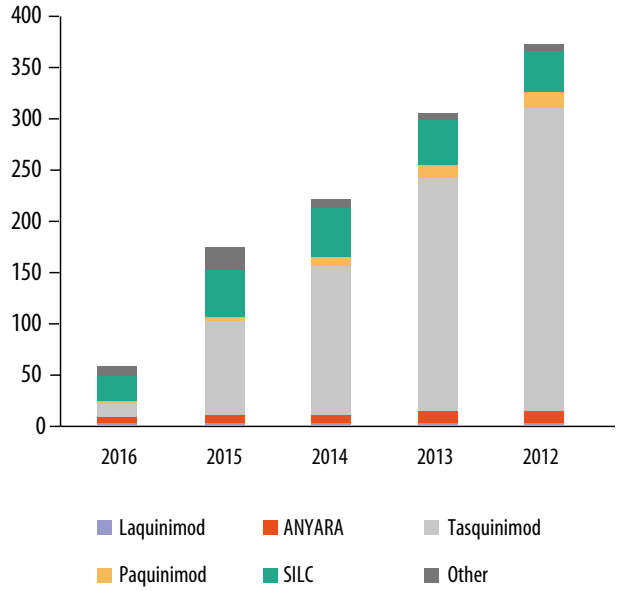
Research expenses 2012–2016 (quarter)



Research expenses 2012–2016, SEK M



Research expenses per project 2012–2016, SEK M



Research expenses 2016

Total research expenses for full-year 2016 amounted to SEK 58.2 M, a 67-percent decline compared with 2015, due primarily to the planned conclusion in 2015 of the clinical development of tasquinimod in prostate cancer. Costs for the global Phase III study was financed in full by Active Biotech and the results were reported in April 2015, after which costs dropped sharply in the second half of 2015 and the beginning of 2016.

In the latter part of 2016, ANYARA was out-licensed to NeoTX Therapeutics, which upon signing the agreement is responsible for the continued clinical development and all project costs.

In the current year, the company's research operations have mainly focused on activities that strengthen the possibility of out-licensing the three remaining projects: tasquinimod in multiple myeloma, paquinimod and SILC.

In 2016, tasquinimod's share of the SEK 58.0 M in research expenses was about 20 percent. The scientific activities for the paquinimod project were concluded during the latter part of 2014, which was the reason for only 2.6 percent of total research expenses in 2016 being allocated to this project. As a result of NeoTX's licensing of the ANYARA project in 2016, the level of activity and costs increased, resulting in 13.8 percent of the costs being allocated to the projects in 2016 compared with 4.3 percent in 2015.

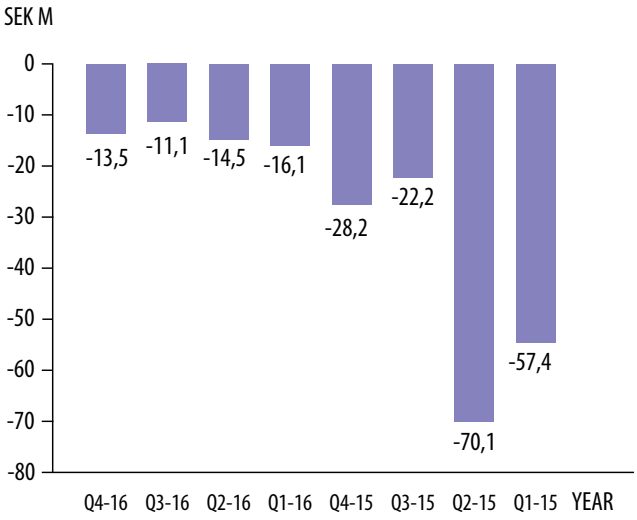
In addition to the clinical development program, the company also pursues the preclinical project SILC, the aim of which is to utilize Active Biotech's own research results generated around a target molecule for the quinoline compounds and their biological mode of action. During 2016, the project focused on strengthening the patent portfolio surrounding the substances that interact with S100 proteins. The increased allocation of resources to the SILC project in 2016 was reflected in a higher share of total research expenses, accounting for 47.4 percent in 2016.

Administrative expenses amounted to SEK 15.9 million (18.0).

Consolidated net financial items amounted to an expense of SEK 6.7 M (expense: 6.8), of which financial income amounted to SEK 0.5 M (0.2) and financial expenses to SEK 7.1 M (7.0). Exchange-rate changes impacting earnings amounted to SEK 0.3 M (0.2).

The operating loss for full-year 2016 was SEK 55.1 M (loss: 177.9), representing an improvement of SEK 122.8 M compared with the preceding year. The improvement in earnings was the result of significantly lower costs in 2016 due to the conclusion of the Phase III trial in tasquinimod for prostate cancer and SEK 9.0 M being charged to the fourth quarter of 2015 for redundancies in conjunction with the restructuring of the company. The cost level in 2016 represents a virtual organization that is focused on activities that support already out-licensed projects (laquinimod and ANYARA) and is working to identify partners for tasquinimod for the treatment of multiple myeloma, paquinimod and the SILC project.

Operating profit/loss per quarter 2015–2016 (SEK M)



The operating result has gradually improved since mid-2015 following the conclusion of the Phase III trial in tasquinimod. The earnings level in the first half of 2016 was impacted to a certain degree by the decided and implemented restructuring of the business. The second half of 2016 includes SEK 3.3 M for costs linked to a concluded patient dispute.

Loss before tax for the period amounted to SEK 61.8 M (loss: 184.7), reported tax income to SEK 2.2 M (expense: 8.8) and loss after tax to SEK 59.6 M (loss: 193.5).

Comments on the balance sheet

At year-end 2016, the Group's total assets amounted to SEK 412.9 M (449.4), of which tangible fixed assets accounted for SEK 328.1 M (329.8). The market value of the company's property Forskaren 1, amounted to SEK 325.0 M (325.0). The value of equipment, tools, fixtures and fittings totaled SEK 3.1 M (4.8). At year-end, cash and cash equivalents and financial investments totaled SEK 77.7 M (103.6).

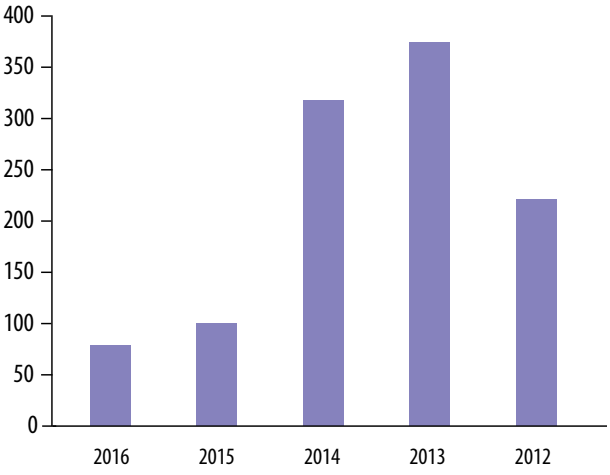
Comments on the cash-flow statement

The Group's cash flow for full-year 2016 was negative SEK 25.9 M (neg: 224.8). The negative cash flow from operating activities amounted to SEK 73.2 M (neg: 217.9). Cash flow from financing activities was a positive SEK 47.2 M (neg: 7.0). A rights issue comprising 6,916,022 shares was carried out during the year, raising proceeds of approximately SEK 53.7 M after issue expenses. Investments in tangible fixed assets amounted to SEK 0.0 M (0.2), of which SEK 0.0 M (0.2) was financed through financial leasing agreements.

Cash and cash equivalents and financial position

At year-end, cash and cash equivalents totaled SEK 77.7 M (103.6). The Board of Active Biotech has established a policy for the investment of the Group's cash and cash equivalents, which stipulates that these be invested at low credit risk, primarily in short-term Swedish securities, commercial papers and fixed-income and bond funds with high liquidity. At year-end, cash and cash equivalents totaling SEK 68.7 M were invested in short-term Swedish securities. Interest-bearing liabilities amounted to SEK 216.3 M (222.8), of which SEK 214.7 M (220.1) is represented by a property loan and SEK 1.6 M (2.7) by liabilities to leasing companies. At year-end, consolidated shareholders' equity amounted to SEK 182.6 M (180.6). At the end of the year, the equity/assets ratio for the Group was 44.2 percent, compared with 40.2 percent at year-end 2015.

Cash and cash equivalents



The Active Biotech share

Share capital and ownership structure

At year-end 2016, Active Biotech AB's share capital amounted to SEK 365.0 M distributed among 96,824,320 shares. The company has one class of share. All shares carry equal rights to participation in the company's assets and dividends. For information concerning the company's major shareholders, see page 49 of this Annual Report.

Corporate governance

Active Biotech AB's Articles of Association stipulate that the election of the Board shall always take place at the Annual General Meeting. Apart from this, the Articles of Association do not contain any stipulations governing how Board members are to be appointed or dismissed, or regarding changes to the Articles of Association. Shareholders can vote for the full number of shares held or represented at General Meetings of Active Biotech. Shares that have been issued are freely transferable without restrictions pursuant to legislation or Active Biotech's Articles of Association. The company is not aware of any agreements among shareholders that can entail restrictions

on the entitlement to transfer shares in the company. For a more detailed description of how Active Biotech manages corporate governance issues and information on mandates granted by the General Meeting, refer to the Corporate Governance Report on pages 52–55.

Parent Company

The operations of the Parent Company Active Biotech AB comprise the Group's research operations, Group coordinative administrative functions and asset management. The Parent Company's net sales for the year amounted to SEK 25.1 M (26.0). Operating expenses for the year amounted to SEK 94.1 M (226.8). Investments in tangible fixed assets amounted to SEK 0.0 M (0.1) for the year. At year-end, the Parent Company's cash and cash equivalents, including short-term investments, amounted to SEK 73.2 M, compared with SEK 88.7 M at the beginning of the year. The loss after tax was SEK 68.6 M (loss: 200.7).

Risk factors

A research company such as Active Biotech is characterized by a high operational and financial risk, since the majority of the projects in which the company is involved are at the clinical phase, and there are a number of factors that have an impact on the likelihood of commercial success. The earlier in the development chain the project is, the higher the risk, while the risk decreases and the likelihood of reaching the market increases as each project completes the various specified development phases. The risk level of projects must be weighed against the potential that the projects will result in the development of a drug in the major indication areas that they aim to address. Active Biotech specializes in the development of pharmaceuticals. However, none of the company's products have yet been approved for sale, and operations to date have therefore been loss-making. It will be 2018 at the earliest before there is a possibility of these products being registered and approved for sale. As a result, Active Biotech might continue to recognize operating losses for several years to come, and there is a risk that the company may never report a profit.

Risks in operations

The process of research and pharmaceutical development until an approved product is registered is, to a great extent, both risky and capital-intensive. There are no guarantees that the requisite clinical studies will produce results that are sufficiently positive to secure approval. Most projects that are started will never achieve the stage of market registration. Neither are there any guarantees that the company will find necessary partners or that these partnerships will achieve the planned outcome. If approval is obtained, there is no guarantee that the approved product will achieve sales success. Competing products with better properties could be launched in the market or the company may prove incapable of marketing its product, either by itself or via partners. While Active Biotech is constantly working to improve patent protection for its compounds, methods and applications, there is no guarantee that the patents will in fact provide the necessary protection or that competitors will not somehow circumvent the patents or in some other manner use the research findings or other intellectual rights that the company has built up. Both the extent and timing of the Group's future capital requirements will depend on a number of factors, such as possibilities to enter into partnership agreements and the degree of success for development projects.

Official requirements

Active Biotech currently holds all the permits required to conduct its operations. Operations are conducted in accordance with applicable legislation, and also meet high environmental and ethical standards. However, there is no guarantee that new requirements introduced by authorities will not make it more difficult to conduct operations. Neither is there any guarantee that the currently applicable permits will be renewed on the same terms or that the Group's insurance cover, which is deemed adequate today, will prove adequate.

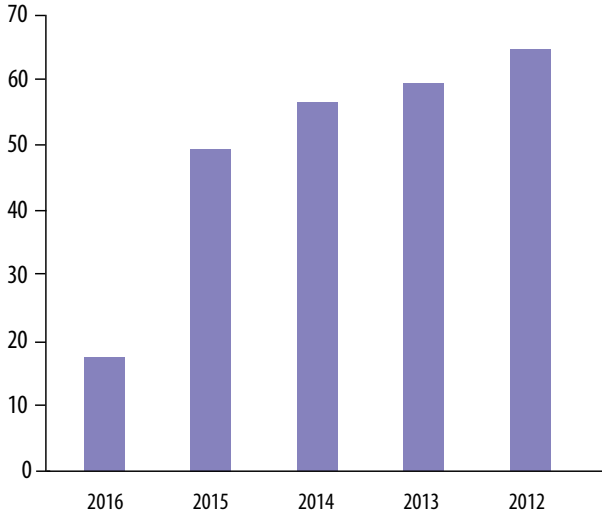
Financial risks

The Group has a currency exposure since operations are conducted in Sweden and research services are purchased internationally. Earnings are exposed to exchange-rate changes with regard to the procurement of clinical trial services, research services and production of clinical materials. Operating expenses amounted to SEK 74.1 M during the fiscal year, of which about 6 percent corresponded to costs in foreign currencies. The proportion of costs in foreign currencies, principally in USD and EUR, may fluctuate as projects enter later phases of clinical development with more clinical studies potentially being conducted abroad. Since the Group does not make use of forward contracts or options to hedge foreign-exchange risk, exchange-rate effects may impact the income statement. The company's credit risks are marginal, since its operations are only subject to low invoicing levels by virtue of the fact that it currently engages primarily in research and development. For further information on financial risks, see Note 18 on page 38.

Organization

The average number of employees in the Group amounted to 28 (55), of whom 14 (28) were women. The average age of the employees was 55 (54) with an average employment period of 21.4 years (22). The education level of the personnel is high; five hold a PhD and five have university/college education. During the year, the Group incurred average education costs of SEK 7,500 per employee. At year-end 2016, the number of employees was 17 (49), of whom 9 (38) were active in research and development

Number of employees at year-end



Incentive program
There are no outstanding incentive programs.

Environmental information
Active Biotech conducts its operations in accordance with the permits issued for the company by the authorities. The company has, for example, a permit from the Swedish Radiation Protection Institute for the handling of radioactive materials, and from the Swedish Board of Agriculture and the Swedish Work Environment Authority regarding genetically modified organisms. In accordance with the Swedish Environmental Code, the company has registered its operations with the County Administrative Board. Inspections by the Swedish Work Environment Authority, the Lund Municipal Environmental Administration and the Swedish Radiation Protection Institute all achieved satisfactory results. Active Biotech has a well-developed program for the sorting of waste at source and for the destruction of environmentally hazardous waste, and works actively to minimize energy consumption and the use of environmentally hazardous substances. Active Biotech is not involved in any environmental disputes

Proposed appropriation of the company's accumulated loss
The Board of Directors and the President propose that no dividend be paid for the 2016 fiscal year. The proposed appropriation of the company's accumulated loss is detailed on page 19.

Report on the work of the Board
The Board decides on the Group's overall strategy, the Group's organization and management in accordance with the Swedish Companies Act. At year-end, the Board comprised four members elected by the Annual General Meeting. Other white-collar employees in the company participate in Board meetings in a reporting capacity or in administrative functions. During the year, eight meetings were held at which minutes were taken. The President & CEO continuously informed the Chairman of the Board and the other Board members of developments in the company. Important issues addressed by the Board included:

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

The work of the Board and governance of Active Biotech is described in detail in the "Corporate Governance Report" section on pages 52–55. With regard to the Group's and Parent Company's results and financial position, refer to the subsequent income statements and balance sheets with the accompanying notes to the financial statements.

The Board's proposed guidelines for remuneration of senior executives
The Board proposes that the Annual General Meeting to be held on June 15, 2017 decide on the following guidelines for remuneration of senior executives. These guidelines essentially conform to those applied to date within the company. Senior executives are defined as the President & CEO and other members of Group management. The guidelines are to apply to employment contracts entered into subsequent to the Board's decision on guidelines and in those instances amendments are made in existing terms and conditions following the Board's decision:

Active Biotech is to offer total remuneration on market terms, facilitating the recruitment and retention of competent senior executives. Remuneration of senior executives is to comprise fixed salary, any variable salary, pensions and other benefits. If the Board also determines that new share-based incentives should be introduced (e.g. employee stock options), a motion concerning this is to be submitted to the General Meeting for resolution. The guidelines applied in 2016 and the remuneration paid are described in Note 5 on page 29.

Fixed salary
The fixed salary is to take into consideration the individuals' area of responsibility and experience. This is to be reviewed on an annual basis.

Variable salary
The variable salary is to, where applicable, depend on the individuals' fulfillment of quantitative and qualitative goals. Variable salary may not exceed 50 percent of fixed salary for the President & CEO. For other senior executives, the variable salary is to amount to not more than 25 percent of fixed salary, whereby the highest level should be based on such factors as the position held by the specific individual.

Pension
Pension benefits are to comprise defined-contribution schemes. For senior executives covered by the ITP plan, the pension premium is to correspond to the stipulations of the ITP plan. For other senior executives, the pension premium is to not exceed 25 percent of fixed salary.

Severance pay, etc.
The period of termination notice for senior executives is to not exceed 12 months. No severance amounts will be payable. However, the President & CEO is entitled to extra remuneration of not more than four annual salaries in the event of an ownership change that entails that the company, in its entirety, is acquired or taken over by another party.

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

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

Previously approved remuneration
The President & CEO is entitled to extra remuneration such as that referred to above under the heading "Severance pay, etc." In other respects, there are no earlier adopted remuneration packages that have not fallen due for payment.

Events after the end of the fiscal year
On January 9, 2017, Active Biotech announced that the European Patent Office had decided to grant Active Biotech's patent application covering tasquinimod for the treatment of multiple myeloma. The patent was granted European Patent No. 3041472 on February 1, 2017 and has a duration extending until 2035.

The European Patent Office also decided to grant Active Biotech's patent application covering a substance group in the SILC project. The patent was granted European Patent No. 2991990 on February 1, 2017 and has a duration extending until 2035. The company has now secured patent protection for two of the three chemically independent substance classes in the project.

On January 31, 2017, the FDA announced that laquinimod had been granted Orphan Drug Designation in the US for the treatment of Huntington's disease.

On May 5, 2017 Teva and Active Biotech announced that CONCERTO trial did not meet primary endpoint.

Outlook for 2017
Active Biotech's ability to develop pharmaceutical projects to the point at which partnership agreements can be concluded and the partner assumes responsibility for the future development and commercialization of the project is decisive for the company's long-term financial strength and stability. Payments from existing agreements, the development and commercialization agreement with Teva regarding laquinimod and the partnership agreement with NeoTX regarding ANYARA, existing cash and cash equivalents and real assets, are expected to fund the operation until such time as a possible marketing authorization has been obtained. Since the timing for the signing of additional partnership agreements and the receipt of milestone payments from existing agreements cannot be specified, no earnings forecast is being issued for the 2017 fiscal year.

Proposed appropriation of the company's accumulated loss
The following amount stated in SEK is at the disposal of the Annual General Meeting:

Share premium reserve	27,638,596
Loss brought forward	-327,915,544
Loss for the year	-68,558,249
Total	-368,835,197

The Board of Directors proposes that the above loss of SEK 368,835,197 be carried forward.

Consolidated income statement

JANUARY 1 – DECEMBER 31 SEK thousands	Note	2016	2015
Net sales	2	19 042	16 275
Administrative expenses	3,4	-15 918	-17 974
Research and development costs	3	-58 248	-176 228
Operating loss	**5**	**-55 124**	**-177 927**
Financial income		458	166
Financial expenses		-7 126	-6 978
Net financial expense	**6**	**-6 668**	**-6 812**
Loss before tax		**-61 792**	**-184 739**
Tax	7	2 208	-8 792
Loss for the year		**-59 584**	**-193 531**
Loss for the year attributable to:			
Parent Company's shareholder		-59 584	-193 531
Non-controlling interests		–	–
Earnings per share	**13**		
before dilution (SEK)		-0.65	-2.13
after dilution (SEK)		-0.65	-2.13

Consolidated statement of cash flows

JANUARY 1 – DECEMBER 31 SEK thousands	Note 21	2016	2015
Operating activities			
Loss before tax		-61 792	-184 739
Adjustments for non-cash items		11 768	12 045
Cash flow from operating activities before changes in working capital		**-50 024**	**-172 694**
Cash flow from changes in working capital			
Increase(-)/Reduction(+) in operating receivables		8 894	-3 592
Increase(+)/Reduction(-) in operating liabilities		-32 033	-41 601
Cash flow from operating activities		**-73 163**	**-217 887**
Financing activities			
New share issue		55 328	–
Issue expenses		-1 621	–
Amortization of loans		-5 380	-5 380
Amortization of leasing liabilities		-1 104	-1 571
Cash flow from financing activities		**47 223**	**-6 951**
Cash flow for the year		**-25 940**	**-224 838**
Cash and cash equivalents, January 1		**103 617**	**328 455**
CASH AND CASH EQUIVALENTS AT YEAR-END		77 677	103 617

Statement of consolidated comprehensive income

JANUARY 1 – DECEMBER 31 SEK thousands	Note	2016	2015
Loss for the year		**-59 584**	**-193 531**
Other comprehensive income			
Items that cannot be reclassified into profit or loss for the year			
Change in revaluation reserve	9	7 179	-42 821
Tax attributable to other comprehensive income	7	-1 579	9 421
Other comprehensive income for the year		**5 600**	**-33 400**
Comprehensive loss for the year		**-53 984**	**-226 931**
Comprehensive loss for the year attributable to:			
Parent Company's shareholders		-53 984	-226 931
Non-controlling interests		–	–

Consolidated statement of financial position

AT DECEMBER 31 SEK thousands	Note	2016	2015
ASSETS			
Land and buildings	9	325 000	325 000
Equipment, tools, fixtures and fittings	9	3 071	4 802
Long-term receivables		1	1
Total fixed assets		**328 072**	**329 803**
Accounts receivable		660	529
Tax assets		2 457	2 457
Other receivables	10	1 350	10 251
Prepaid expenses and accrued income	11	2 659	2 783
Cash and cash equivalents	21	77 677	103 617
Total current assets		**84 803**	**119 637**
TOTAL ASSETS		412 875	449 440

AT DECEMBER 31 SEK thousands	Note	2016	2015
SHAREHOLDERS' EQUITY			
Share capital		364 964	338 895
Other capital contributed		3 265 002	3 237 363
Reserves		86 089	80 489
Profit/loss brought forward incl. loss for the year		-3 533 500	-3 476 144
Total shareholders' equity	**12**	**182 555**	**180 603**
LIABILITIES			
Liabilities to credit institutions	14	206 183	214 688
Other long-term interest-bearing liabilities	14	775	1 584
Total long-term liabilities		**206 958**	**216 272**
Short-term interest-bearing liabilities	14	9 320	6 490
Accounts payable		3 898	6 625
Tax liabilities		34	34
Other liabilities	15	1 235	2 064
Accrued expenses and deferred income	16	8 875	37 352
Total short-term liabilities		**23 362**	**52 565**
TOTAL LIABILITIES		230 320	268 837
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		412 875	449 440

For information pertaining to pledged assets and contingent liabilities, see Note 19.

Statement of changes in consolidated equity

SEK thousands	Note 12	Share capital	New share issue in progress	Other capital contributed	Revaluation reserve	Profit/loss brought forward incl. loss for the year	Total shareholders' equity
Opening shareholders' equity, January 1, 2015		282 413	56 482	3 237 363	113 889	-3 284 841	405 306
Loss for the year		–	–	–	–	-193 531	-193 531
Comprehensive income/loss for the year		–	–	–	-33 400	–	-33 400
Transfer from revaluation reserve		–	–	–	–	2 228	2 228
New share issue in progress		56 482	-56 482	–	–	–	–
Closing shareholders' equity, December 31, 2015		338 895	–	3 237 363	80 489	-3 476 144	180 603
Opening shareholders' equity, January 1, 2016		338 895	–	3 237 363	80 489	-3 476 144	180 603
Loss for the year		–	–	–	–	-59 584	-59 584
Comprehensive income/loss for the year		–	–	–	5 600	–	5 600
Transfer from revaluation reserve		–	–	–	–	2 228	2 228
New share issue[1)]		26 069	–	27 639	–	–	53 708
Closing shareholders' equity, December 31, 2016		364 964	–	3 265 002	86 089	-3 533 500	182 555

1) The new share issue amount for 2016 was recognized net after deductions for transaction costs of SEK 1,621 thousand.

Parent Company income statement

JANUARY 1 – DECEMBER 31

SEK thousands	Note	2016	2015
Net sales	2	25 147	26 042
Administrative expenses	3,4	-32 418	-35 611
Research and development costs	3	-61 739	-191 189
Operating loss	5	**-69 010**	**-200 758**
Profit/loss from financial items			
Interest income and similar items	6	457	166
Interest expense and similar items	6	-5	-120
Loss after financial items		**-68 558**	**-200 712**
Loss before tax		**-68 558**	**-200 712**
Tax	7	–	–
Loss for the year		**-68 558**	**-200 712**

Statement of comprehensive income, Parent Company

JANUARY 1 – DECEMBER 31

SEK thousands	2016	2015
Loss for the year	-68 558	-200 712
Other comprehensive income	–	–
Comprehensive loss for the year	**-68 558**	**-200 712**

Cash flow statement for the Parent Company

JANUARY 1 – DECEMBER 31

SEK thousands	Note 21	2016	2015
Operating activities			
Loss after financial items		-68 558	-200 712
Adjustments for non-cash items	16 189	16 214	
Cash flow from operating activities before changes in working capital		**-52 369**	**-184 498**
Cash flow from changes in working capital			
Increase(-)/Reduction(+) in operating receivables		13 487	-5 087
Increase(+)/Reduction(-) in operating liabilities		-30 248	-41 489
Cash flow from operating activities		**-69 130**	**-231 074**
Financing activities			
New share issue		55 328	–
Issue expenses		-1 621	–
Cash flow from financing activities		**53 707**	**–**
Cash flow for the year		**-15 423**	**-231 074**
Cash and cash equivalents, January 1		**88 620**	**319 694**
CASH AND CASH EQUIVALENTS AT YEAR-END		73 197	88 620

Parent Company balance sheet

AT DECEMBER 31 SEK thousands	Note	2016	2015
ASSETS			
Fixed assets			
Intangible fixed assets			
Goodwill	8	64 599	80 748
Total intangible fixed assets		**64 599**	**80 748**
Tangible fixed assets			
Equipment, tools, fixtures and fittings	9	453	493
Total tangible fixed assets		**453**	**493**
Financial fixed assets			
Participations in Group companies	20	40 550	40 550
Other long-term receivables		1	1
Total financial fixed assets		**40 551**	**40 551**
Total fixed assets		**105 603**	**121 792**
Current assets			
Short-term receivables			
Accounts receivable		625	441
Receivables from Group companies		7 813	12 461
Tax assets		2 457	2 457
Other receivables	10	1 350	10 250
Prepaid expenses and accrued income	11	2 659	2 783
Total short-term investments		**14 904**	**28 392**
Short-term investments	21	68 714	76 555
Cash and bank balances	21	4 483	12 065
Total current assets		**88 101**	**117 012**
TOTAL ASSETS		193 704	238 804

AT DECEMBER 31 SEK thousands	Note	2016	2015
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Restricted equity			
Share capital		364 964	338 895
Revaluation reserve		64 599	80 748
Statutory reserve		118 871	118 871
Unrestricted equity			
Share premium reserve		27 639	167 097
Loss brought forward		-327 915	-310 449
Loss for the year		-68 558	-200 712
Total shareholders' equity	12	179 600	194 450
Short-term liabilities			
Accounts payable		3 898	6 624
Liabilities to Group companies		1 506	–
Other liabilities	15	473	980
Accrued expenses and deferred income	16	8 227	36 750
Total short-term liabilities		**14 104**	**44 354**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		193 704	238 804

For information pertaining to Parent Company's pledged assets and contingent liabilities, see Note 19.

Statement of changes in Parent Company's equity

		Restricted equity			Unrestricted equity				
SEK thousands	Note 12	Share capital	Revaluation reserve	Statutory reserve	New share issue in progress	Share premium reserve	Profit/loss brought forward	Loss for the year	Total shareholders' equity
Opening shareholders' equity, January 1, 2015		282 413	96 898	118 871	56 482	167 097	-76 625	-249 974	395 162
New share issue in progress		56 482	–	–	-56 482	–	–	–	–
Transfer between restricted and unrestricted equity		–	-16 150	–	–	–	16 150	–	–
Loss for the year		–	–	–	–	–	–	-200 712	-200 712
Comprehensive loss for the year		–	–	–	–	–	–	–	–
Treatment of profit/loss in preceding year		–	–	–	–	–	-249 974	249 974	–
Closing shareholders' equity, December 31, 2015		338 895	80 748	118 871	–	167 097	-310 449	-200 712	194 450
Opening shareholders' equity, January 1, 2016		338 895	80 748	118 871	–	167 097	-310 449	-200 712	194 450
New share issue[1)]		26 069	–	–	–	27 639	–	–	53 708
Transfer between restricted and unrestricted equity		–	-16 149	–	–	–	16 149	–	0
Loss for the year		–	–	–	–	–	–	-68 558	-68 558
Comprehensive loss for the year		–	–	–	–	–	–	–	–
Treatment of profit/loss in preceding year		–	–	–	–	-167,097	-33,615	200,712	0
Closing shareholders' equity, December 31, 2016		364 964	64 599	118 871	–	27 639	-327 915	-68 558	179 600

[1)] The new share issue amount was recognized net after deductions for transaction costs of SEK 1,621 thousand.

Notes to the financial statements

Note 1 • Accounting policies

Conformity with standards and legislation
The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), as adopted by the European Union. In addition, the Group applied the recommendation of the Swedish Financial Reporting Board RFR 1 Supplementary Accounting Rules for Groups.

The Parent Company applies the same accounting policies as the Group, except in the instances specified below in the section "Accounting policies of the Parent Company."

The Annual Report and the consolidated financial statements were approved for issue by the Board and the President on May 17, 2017.

The consolidated income statement and statement of financial position and the Parent Company's income statement and balance sheet will be subject for adoption by the Annual General Meeting on June 15, 2017.

Conditions for preparing the Parent Company's and Group's financial statements

The Parent Company's functional currency is Swedish kronor, which is also the presentation currency for the Parent Company and the Group. Accordingly, the financial statements are presented in Swedish kronor, SEK. All amounts, unless otherwise stated, are rounded off to the nearest thousand. Assets and liabilities are recognized at historical acquisition value (cost), except for the Group's property Forskaren 1, and certain financial assets and liabilities, which are measured at fair value. Financial assets and liabilities measured at fair value comprise derivatives and short-term investments.

The preparation of financial statements in accordance with IFRS requires company management to make assessments and estimates that affect the application of the accounting policies and the recognized amounts of assets, liabilities, revenues and expenses. The actual outcome may deviate from these estimates and assessments. The estimates and assumptions are reviewed regularly. Changes to the estimates are recognized in the period in which the change is made if it is the only period affected by the change, but if it also affects future periods, it is recognized in the period the change is made and in future periods.

Assessments made by company management when applying IFRS that may considerably influence the financial statements together with estimates made that may entail significant adjustments to financial statements in forthcoming years are described in more detail in Note 22.

The accounting policies for the Group detailed below were applied consistently in all periods presented in the consolidated financial statements, unless otherwise specified below.

The Group's accounting policies were applied consistently in the reporting and consolidation of the Parent Company and subsidiaries.

Changed accounting policies
IFRS 16 Leases replaces IAS 17 Leases as of January 1, 2019 subject to approval of the standard by the EU. Active Biotech does not plan to apply IFRS 16 prospectively. IFRS 16 requires Active Biotech as a lessee to recognize all leasing agreements as assets and liabilities on the balance sheet, representing the right to utilize the leased asset and the obligation to pay leasing fees, respectively.

Regarding leasing agreements, depreciation of the leasing asset and interest costs on the leasing liability are recognized in profit or loss. There are voluntary exceptions from the application of IFRS 16 for leasing agreements for low-value assets as well as agreements with a leasing period of 12 months or less.

For lessors, there are no substantial changes except for additional disclosure requirements.

For Active Biotech as a lessee, the expectation is that the company's total assets will increase through capitalizing agreements currently classified as operational, that operating profit will improve and that financial costs will rise. The effects are not deemed material given the limited extent of operational leasing agreements.

Furthermore, the effects will be determined by which of the available transitional rules that Active Biotech chooses to apply in connection with the move to IFRS 16.

Other new or amended IFRS, including statements, are not expected to have any material impact on the Group's reporting.

Segment reporting
An operating segment is a part of the Group that conducts operations from which it can generate revenues and incur costs and from which independent financial information is available. In addition, an operating segment's results are followed up by the company's chief operating decision-maker to assess earnings and to be able to allocate resources to the operating segment. 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 Group's entire operation comprises a single operating segment. All operations are conducted in Sweden.

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

Consolidation principles
Subsidiaries
A subsidiary is a company in which Active Biotech AB has a controlling influence. Controlling influence entails a direct or indirect right to formulate a company's financial and operative strategies with the aim of obtaining financial benefits. When determining if a controlling influence exists, consideration is given to potential shares that carry voting rights, which can be utilized or converted without delay.
Transactions to be eliminated at consolidation
Intra-Group receivables and liabilities, revenues and expenses and unrealized gains or losses that arise from transactions between Group companies are eliminated in their entirety when preparing the consolidated financial statements.

Foreign currency
Transactions in foreign currency
Transactions in foreign currency are translated to the functional currency at the exchange rate prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are translated to the functional currency at the exchange rate prevailing on the balance-sheet date. Exchange-rate differences that arise in translation are recognized in profit or loss. Non-monetary assets and liabilities that are recognized at historical cost are translated at the exchange rate prevailing at the date of the transaction. Non-monetary assets and liabilities that are recognized at fair value are translated to the functional currency at the exchange rate prevailing at the date of measurement at fair value.

Recognition of revenues
Active Biotech currently receives revenues for out-licensing of research projects, for performing research services and from rental revenues.

Revenues for out-licensing of research projects comprise a licensing fee, milestone payments and royalties from the sale of the pharmaceuticals.

An up-front payment is received when the partnership agreement is entered into. This payment is recognized in full at the date of entering into the agreement on condition that the company has fulfilled all commitments under the agreement. Any milestone payments are recognized as revenue if and when the parties to the agreement meet the agreed criteria and agreement has been reached with the counterparty.

Any future royalty revenues are recognized as revenue in accordance with the financial content of the agreement.

Research services are recognized as revenue in the accounting period during which the work was performed.

Rental revenues are recognized in accordance with the terms of the rental agreement.

Operating expenses and financial income and expenses
Operational leasing agreements
Costs pertaining to operational leasing agreements are recognized straight-line in profit or loss over the leasing period.

Financial leasing agreements
Minimum lease payments are divided between interest expenses and amortization of the outstanding liability. The interest expense is divided over the leasing period so that each accounting period is charged with an amount that corresponds to a fixed interest rate for the recognized liability in each period.

Variable fees are expensed in the periods in which they arise.

Financial income and expenses
Financial income and expenses include interest income on bank deposits and receivables, interest expenses on loans, exchange-rate differences and unrealized and realized gains from financial investments and value changes in derivatives.

Interest income on receivables and interest expenses on liabilities are calculated using the effective interest method. Effective interest is the interest that discounts estimated future receipts and payments during a financial instrument's anticipated duration to the financial asset's or liability's recognized net value. The interest component in financial leasing payments is recognized in profit or loss through the application of the effective interest method. Interest income includes the allocated amounts of transaction expenses and any discounts, premiums and other differences between the original value of the receivable and the amount received at maturity.

Interest is not included in the net gain or net loss on financial instruments measured at fair value in profit or loss.

Exchange-rate gains and losses are netted.

Financial instruments

Financial instruments recognized in the asset side of the statement of financial position include cash and cash equivalents, accounts receivable, shares and other equity instruments, loan receivables and bond receivables. Liabilities include accounts payable, loan liabilities and derivatives with a negative fair value.

Recognition in, and derecognition from, the statement of financial position

A financial asset or financial liability is recognized in the statement of financial position when the company is party to the contractual conditions of the instrument. Accounts receivable are recognized in the statement of financial position when the invoice has been sent. Liabilities are recognized when the other contracting party has fulfilled its obligations and payment is due, although the invoice has not yet been received. Accounts payable are recognized when the invoice is received.

A financial asset is derecognized from the statement of financial position when the contractual rights are realized, mature or the company loses control over them. This also applies to parts of financial assets. A financial liability is derecognized from the statement of financial position when the contractual obligation is met. This also applies to parts of financial liabilities. Acquisition and divestment of financial assets are recognized on the transaction date, which is the date the company commits to the acquisition or divestment of the asset. Cash and cash equivalents comprise liquid funds and immediately accessible balances in banks and corresponding institutes, as well as short-term liquid investments that have a maturity of three months or less from the acquisition date, which are exposed to only an insignificant risk of fluctuation in value.

Classification and measurement

Financial instruments are initially recognized at cost representing the fair value of the instrument, with transaction costs added for all financial instruments, except those defined as financial assets and measured at fair value in profit or loss, which are measured at fair value excluding transaction expenses. Accordingly, the recognition of financial instruments depends on the manner in which they have been classified, which is specified below.

Loan and accounts receivables

Loan and accounts receivables are financial assets, which do not comprise derivatives, with fixed or determinable payments that are not quoted on an active market. Assets in this category are measured at amortized cost. Amortized cost is based on the effective interest calculated at the date of acquisition. Assets with a short duration are not discounted. This category comprises accounts receivable, long-term receivables, other receivables, and cash and bank. Accounts receivable are recognized at the amount that is expected to be received, that is, after the deduction of doubtful receivables, which are determined individually. Impairment of accounts receivable is recognized in operating expenses. Other receivables are classified as long-term receivables if the duration is longer than one year, and if it is shorter, as other receivables. Any impairment of long-term loan receivables is recognized as a financial item.

Investments held to maturity

Investments held to maturity comprise financial assets that encompass interest-bearing securities with fixed or determinable payments and fixed maturities that t he company has an express intention and ability to hold to maturity. Assets in this category are measured at amortized cost.

Financial assets and liabilities at fair value in profit or loss

This category consists of the sub-group Financial assets and liabilities held for trading and contains the Group's derivatives with positive or negative fair values and other financial instruments continuously measured at fair value with the changes in the value recognized in profit or loss.

Other financial liabilities

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

Tangible fixed assets

Owned assets

The Group measures tangible fixed assets using the cost method, with the exception of the Group's property, which is measured using the revaluation method. Tangible fixed assets that are recognized using the cost method are recognized in the consolidated accounts at cost, less a deduction for accumulated depreciation and any impairment losses.

The cost includes the purchase price and expenses directly attributable to the asset to bring the asset to the site and in the working condition for its intended use. Examples of directly attributable expenses included in the cost are delivery and handling costs, installation, acquisition registration, consultancy services and legal services.

The Group's property is measured at fair value less deductions for accumulated depreciation and adjustments due to revaluation. Revaluation is conducted with the regularity that is required to ensure that the carrying amount is not to significantly deviate from what is established as the fair value on the balance-sheet date. The fair value of the property is based on the valuation conducted by independent external appraisers.

When an asset's carrying amount increases, the appreciation is recognized directly in other comprehensive income and accumulated in a separate component in shareholders' equity termed "Revaluation reserve." If the increase entails a reversal of the previously recognized value impairment with regard to the same asset, the reduction is recognized as a reduced expense in profit or loss. When the carrying amount of an asset is reduced as a result of a revaluation, the reduction is recognized as an expense in profit or loss.

If there is a balance in the revaluation reserve attributable to the asset, the value decline is recognized in other comprehensive income as a reduction in the revaluation reserve.

The difference between depreciation based on the revaluation value and depreciation using the original cost is transferred from the revaluation reserve to profit/loss brought forward.

Accumulated depreciation at the time of revaluation is eliminated against the asset's cost (or, where appropriate, in the revalued cost) after which the remaining net amount is adjusted to achieve conformity with the amount to which the asset was revalued (the asset's fair value). When an asset is divested, the revaluation reserve is transferred to profit/loss brought forward with no impact on profit or loss or other comprehensive income.

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

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

Leased assets

Leases are classified in the consolidated financial statements as either financial leases or operational leases. Financial leases exist when the financial risks and benefits associated with ownership are essentially transferred to the lessee. If this is not the case, the lease is considered to be an operational lease.

Assets leased through financial leasing agreements are recognized as assets in the consolidated statement of financial position.

The commitment to pay future leasing fees is recognized as long-term and short-term liabilities. These assets are depreciated over the contractual leasing period while leasing fees are recognized as interest and amortization of liabilities. Leasing fees for operational leases are expensed straight-line over the term of the lease based on the value in use, which may differ from that which has actually been paid as a leasing fee during the year.

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

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

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

Estimated useful life of:

– Buildings, owner-occupied properties	35 –100 years
– Equipment, tools, fixtures and fittings	3 –10 years

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

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

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

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

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

Intangible assets
Research and development
Expenses for research with the purpose of acquiring new scientific or technical knowledge are expensed when they arise.

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

Since the period in which the company's research and development projects are expected to be registered is some way off in the future, there is considerable uncertainty as to when any financial benefits will accrue to the company.
Development costs are capitalized only on the condition that it is technically and financially possible to complete the asset, that the intention is, and the conditions exist, for the asset to be used in operations or sold and that it can be calculated in a reliable manner. Expenses pertaining to patents, technology and trademark rights and other similar assets that are part of the research and development operations are not capitalized, but are offset against earnings on an ongoing basis.

No assets of this character were acquired.

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

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

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

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

Impairment testing of financial assets
At each reporting occasion, the company assesses if there is objective evidence that an impairment requirement exists for a financial asset or group of financial assets. Objective evidence comprises observable events that have taken place that have had a negative impact on the prospect of recovering the cost.

The recoverable amount for assets included in the loan receivables and accounts receivable category, which are recognized at amortized cost, is calculated as the present value of future cash flows discounted by the effective interest rate that applied when the asset was initially recognized. Assets with a short duration are not discounted. An impairment loss is charged to profit or loss.
Reversal of impairment
An impairment loss is reversed if there is both an indication that the impairment requirement no longer exists and if there has been a change in the assumptions that formed the basis for the calculation of the recoverable amount. However, impairment of goodwill is never reversed. Reversal of impairment is only conducted to the extent that the asset's carrying amount after the reversal does not exceed the carrying amount that would have been recognized, less depreciation, where applicable, had no impairment taken place.

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

Employee remuneration
Post-retirement benefits
Both defined-benefit and defined-contribution pension plans exist within the Group. For defined-benefit plans, remuneration of current and former employees is based on their salary at the time of retirement as well as the number of years of service. The Group assumes responsibility for ensuring that promised remuneration is paid. For defined-contribution plans, the company pays pension premiums to separate legal entities and has no legal commitment or informal obligation to pay further premiums (if these should lack the assets necessary to provide the promised benefits).
The company's obligations relating to fees for defined-contribution plans are expensed in profit or loss as they are accrued due to the employee performing services for the company over a period.

All defined-benefit pension plans are secured through insurance with Alecta, which is a multi-employer defined-benefit plan. For the 2016 and 2015 fiscal years, the company did not have access to information that would make it possible to recognize this plan as a defined-benefit plan. Accordingly, pension plans conforming to ITP and secured through an Alecta insurance policy are recognized as a defined-contribution plan.

Severance pay
An expense for remuneration in connection with termination of employment of personnel is recognized only if the company is unquestionably obligated, without any realistic possibility of withdrawal, by a formal detailed plan to eliminate a position in advance of when that position would normally expire. When remuneration is paid as

an offer to encourage voluntary termination of employment, a cost for this is recognized if it is probable that the offer will be accepted and the number of employees that will accept the offer can be reliably estimated.

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

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

Recognition of earnings per share
The calculation of earnings per share is based on profit/loss for the year in the Group attributable to the Parent Company's shareholders and on the weighted average number of shares outstanding during the year. There were no potential ordinary shares that could give rise to any dilution effects during the reported periods.

Provisions
A provision is recognized in the statement of financial position when the Group has an existing legal or constructive obligation resulting from past events and it is probable that an outflow of financial resources will be required to settle the obligation and the amount can be reliably estimated. When the effect of the timing of when the payment will be made is significant, provisions are calculated by discounting the anticipated future cash flows to an interest rate before tax that reflects the actual market estimate of the money's value over time and, if applicable, the risks that are associated with the liability.

Taxes
Income taxes comprise current tax and deferred tax. Income taxes are recognized in profit or loss except where the underlying transaction is recognized in other comprehensive income or in shareholders' equity, whereby the associated tax effect is recognized in other comprehensive income or shareholders' equity. Current tax is tax that is to be paid or recovered in relation to the current year, applying tax rates determined or announced at the balance-sheet date. Adjustment to current tax relating to previous periods is also recognized here.

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

Deferred tax is calculated applying tax rates and legislation determined or announced at the balance-sheet date. Deferred tax assets pertaining to deductible temporary differences and loss carryforwards are recognized to the extent that it is probable that they will be utilized. The carrying amount of deferred tax assets is reduced when it is no longer judged probable that they will be utilized.

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

Contingent liabilities
A contingent liability is recognized when a possible commitment exists arising from events that have occurred, the validity of which can only be confirmed by the occurrence or absence of one or more future events, or where there is a commitment not recognized as a liability or provision due to the low probability that an outflow of resources will be required.

Parent Company's accounting policies
The Parent Company prepared its annual financial statements in accordance with the Annual Accounts Act (1995:1554) and the recommendations of the Swedish Financial Reporting Board RFR 2, Accounting for Legal Entities. Statements issued by the Swedish Financial Reporting Board concerning listed companies were also applied. RFR 2 entails that in the annual accounts for a legal entity, the Parent Company is to apply all of the IFRS regulations and statements approved by the European Union to the greatest possible extent, within the framework of the Annual Accounts Act, the Pension Obligations Vesting Act and with consideration given to the relationship between accounting and taxation. The recommendation stipulates what exceptions and additions are to be made to IFRS.

Changed accounting policies
The Parent Company's accounting policies for 2016 were unchanged compared with the preceding year.

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

Classification and presentation forms
The presentation of the Parent Company's income statement and balance sheet is in line with the arrangement specified in the Annual Accounts Act. The difference in relation to IAS 1 Presentation of financial statements, which is applied in the preparation of the consolidated financial statements, is primarily the recognition of financial income and expenses, shareholders' equity and the occurrence of provisions as a separate heading in the balance sheet.

Subsidiaries
Participations in subsidiaries are recognized by the Parent Company using the cost method. This implies that transaction costs are included in the carrying amount of participations in subsidiaries. In the consolidated financial statements, transaction expenses attributable to subsidiaries are recognized immediately in profit or loss when these arise. The Parent Company always recognizes dividends from subsidiaries as revenue in profit or loss.

Financial guarantee contracts
The Parent Company's financial guarantee contracts mainly comprise guarantees for the benefit of subsidiaries. Financial guarantees mean that the company has an obligation to compensate the holder of a promissory instrument for losses that it incurs because a specific debtor fails to pay by the due date in accordance with the terms and conditions of the agreement. For recognition of financial guarantee contracts, the Parent Company applies one of the regulations permitted by the Swedish Financial Reporting Board that entails a relaxation compared with IAS 39 as regards financial guarantee contracts issued for the benefit of subsidiaries. The Parent Company records financial guarantee contracts as a provision in the balance sheet when the company has an obligation for which it is probable that payment will be required to settle the obligation.

Tangible fixed assets
Owned assets
Tangible fixed assets in the Parent Company are recognized at cost less deductions for accumulated depreciation and any impairment losses in the same manner as for the Group, but with the addition of any revaluations.

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

Intangible fixed assets
Research and development
In the Parent Company, all expenses for development are recognized as expenses in profit or loss.

Depreciation principles
Amortization is conducted on a straight-line basis over the estimated useful life of the asset, which corresponds to the period during which it will be used. For goodwill, the useful life is ten years.

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

Note 2 • Distribution of sales

	Group		Parent Company	
SEK thousands	**2016**	2015	**2016**	2015
License fees	2 250	–	2 250	–
Research services	1 813	4 474	1 813	4 474
Rental revenues	12 841	9 245	–	–
Service revenues	1 885	1 087	1 885	1 087
Property services	–	–	18 946	19 012
Other	253	1 469	253	1 469
Total	19 042	16 275	25 147	26 042

Note 3 • Operating expenses distributed by type of cost

	Group		Parent Company	
SEK thousands	**2016**	2015	**2016**	2015
Personnel costs	29 179	68 851	29 179	68 851
Depreciation/amortization	11 767	12 046	16 189	16 213
Operating expenses	8 233	11 128	8 229	11 125
Property expenses	16 194	16 874	31 768	45 308
Administrative expenses	935	1 713	935	1 713
External R&D expenses	6 613	81 368	6 613	81 368
Other external services	1 244	2 222	1 244	2 222
Total	74 165	194 202	94 157	226 800

Note 4 • Auditors' fees

	Group and Parent Company	
SEK thousands	**2016**	2015
KPMG AB		
Auditing assignment	450	439
Audit activities other than auditing assignment	–	–
Tax consultancy services	45	38
Other assignments	–	–

Auditing assignments relate to the auditing of the annual report and accounts, including the Board's and the President & CEO's administration, and other assignments that the company's auditors are required to perform (including reviews of interim reports).

Note 5 • Employee and personnel costs, and remuneration of senior executives

Costs for remuneration of employees	Group		Parent Company	
SEK thousands	**2016**	2015	**2016**	2015
Salaries and remuneration, etc.[3]	15 351	41 941	15 351	41 941
Pension costs, defined-contribution plans[1] [2] (see below)	7 375	9 866	7 375	9 866
Social-security costs[3]	3 569	13 741	3 569	13 741
Non-monetary remuneration	2 060	2 344		
Total	28 355	67 892	26 295	65 548

[1] Of the Parent Company's pension costs, SEK 2,814 thousand (2,814) pertains to the Board of Directors and President & CEO.

[2] The Group's pension costs include SEK 1.5 M (2.7) pertaining to the ITP plan financed in Alecta. See the section below "Post-retirement benefits" for further information.

[3] Salaries and remuneration, etc. and social-security costs include expenses for redundancies of a total of SEK 0.0 M (9.0).

Average number of employees	2016		2015	
	No. of employees	Of whom, women	No. of employees	Of whom, women
Parent Company				
Sweden	28	14 (50%)	55	28 (51%)
Total Parent Company	28	14 (50%)	55	28 (51%)
Subsidiaries				
Sweden	0	0 (0%)	0	0 (0%)
Group total	**28**	**14 (50%)**	**55**	**28 (51%)**

Gender distribution in management	2016	2015
	Of whom, women	
Parent Company		
Board of directors	25%	25%
Other senior executives	33%	33%
Group total		
Board of Directors	25%	25%
Other senior executives	33%	33%

Salaries and other remuneration subdivided by country and between senior executives and other employees, and social-security costs in the Parent Company	2016			2015		
SEK thousands	Senior executives (7 individuals)	Other employees	Total	Senior executives (9 individuals)	Other employees	Total
Salaries and other remuneration						
Sweden	6 583	8 768	15 351	6 678	35 263	41 941
(of which, bonus and similar)	–	–	–	–	–	–
Total Parent Company	6 583	8 768	15 351	6 678	35 263	41 941
(of which, bonus and similar)	–	–	–	–	–	–
Social-security costs[1)]	6 528	4 416	10 944	6 461	17 146	23 607
[1)] of which, pension costs	4 203	3 172	7 375	4 139	5 727	9 866

Salaries and other remuneration, pension costs for senior executive in the Group	2016	2015
Group	Senior executives	Senior executives
SEK thousands	(7 individuals)	(7 individuals)
Salaries and other remuneration	6 583	6 678
(of which, bonus and similar)	–	–
Pension costs	4 203	4 139

Severance pay and loans to senior executives

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

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

The company and other senior executives are to be subject to a mutual period of termination notice of not more than 12 months. No severance pay will be issued and no loans exist. However, the President & CEO is entitled to extra remuneration of not more than four annual salaries in the event of an ownership change that entails that the company, in its entirety, is acquired or taken over by another party.

Post-retirement benefits

Defined-benefit plans

Retirement pension and family pension obligations for salaried workers in Sweden are secured through insurance with Alecta, which is a multi-employer, defined-benefit plan. For the 2016 and 2015 fiscal years, the company did not have access to information that would make it possible to recognize this plan as a defined-benefit plan. Accordingly, pension plans conforming to ITP and secured through an Alecta insurance policy are recognized as a defined-contribution plan. The year's fees for pension insurance subscribed to in Alecta totaled SEK 1.5 M (2.7) and for 2017 the premiums will amount to SEK 0.7 M. Alecta's surplus can be allocated to the policyholders and/or the insured. At year-end 2016, Alecta's surplus at the collective funding ratio amounted to 149 percent (153). The collective funding ratio comprises the market value of Alecta's assets as a percentage of insurance obligations based on Alecta's actuarial calculations, which do not conform to IAS 19. Active Biotech's share of total savings premiums for ITP2 with Alecta amounted to 0.00711 percent for 2016 and the share of the total actively insured in ITP2 amounted to 0.0092 percent in December 2016.

Remuneration of senior executives

Guidelines adopted at the Annual General Meeting on May 26, 2016

Active Biotech is to offer total remuneration on market terms, facilitating the recruitment and retention of competent senior executives. Remuneration of senior executives is to comprise fixed salary, any variable salary, pensions and other benefits. If the Board also determines that new share-based incentives should be introduced (e.g. employee stock options), a motion concerning this is to be submitted to the General Meeting for resolution.

Fixed salary

The fixed salary is to take into consideration the individuals' area of responsibility and experience. This is to be reviewed on an annual basis.

Variable salary

The variable salary is to, where applicable, depend on the individuals' fulfillment of quantitative and qualitative goals. Variable salary may not exceed 50 percent of fixed salary for the President & CEO. For other senior executives, the variable salary is to amount to not more than 25 percent of fixed salary, whereby the highest level should be based on such factors as the position held by the specific individual.

Pension

Pension benefits are to comprise defined-contribution schemes. For senior executives covered by the ITP plan, the pension premium is to correspond to the stipulations of the ITP plan. For other senior executives, the pension premium is to not exceed 25 percent of fixed salary.

Severance pay

The period of termination notice for senior executives is to not exceed 12 months. No severance amounts will be payable. However, the President & CEO is entitled to extra remuneration of not more than four annual salaries in the event of an ownership change that entails that the company, in its entirety, is acquired or taken over by another party.

Other benefits

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

Preparation and approval

The President & CEO's remuneration is to be prepared and approved by the Board. Other senior executives' remuneration is to be prepared by the President & CEO, who is to submit a proposal to the Board for approval.

The Board is entitled to deviate from the above principles if it deems that there are particular grounds for doing so in individual cases.

Previously approved remuneration

The President & CEO is entitled to extra remuneration such as that referred to above under the heading "Severance pay, etc." In other respects, there are no earlier adopted remuneration packages that have not fallen due for payment.

Remuneration and other benefits during 2016

SEK thousands	Basic salary /Board fee	Variable remuneration	Salary exchange	Pension costs	Share-based remuneration	Other remuneration	Total
Chairman of the Board; Mats Arnhög [1]	250	–	–	–	–	–	250
Board member; Magnhild Sandberg-Wollheim [1]	125	–	–	–	–	–	125
Board member; Peter Sjöstrand [1]	125	–	–	–	–	–	125
Board member; Peter Thelin [1]	125	–	–	–	–	–	125
President & CEO, Tomas Leanderson	3 313	–	1 530	1 284	–	–	6 127
Other senior executives (2 individuals)	2 645	–	537	852	–	–	4 034
Total	**6 583**	**–**	**2 067**	**2 136**	**–**	**–**	**10 786**

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

Remuneration and other benefits during 2015

SEK thousands	Basic salary /Board fee	Variable remuneration	Salary exchange	Pension costs	Share-based remuneration	Other remuneration	Total
Chairman of the Board; Mats Arnhög [1]	250	–	–	–	–	–	250
Board member; Magnhild Sandberg-Wollheim [1]	125	–	–	–	–	–	125
Board member; Peter Sjöstrand [1]	125	–	–	–	–	–	125
Board member; Peter Thelin [1]	125	–	–	–	–	–	125
President & CEO, Tomas Leanderson	3 291	–	1 530	1 284	–	–	6 105
Other senior executives (2 individuals)	2 762	–	457	868	–	–	4 087
Total	**6 678**	**–**	**1 987**	**2 152**	**–**	**–**	**10 817**

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

Note 6 • Net financial items

	Group		Parent Company	
SEK thousands	**2016**	2015	**2016**	2015
Interest income				
- Other interest income	8	11	7	11
Net gain on financial assets and liabilities measured at fair value in profit or loss				
- Held for trading: Short-term investments	159	–	159	–
Net exchange-rate changes	291	155	291	155
Financial income/Interest income and similar profit/loss items	**458**	**166**	**457**	**166**
Interest expenses				
- Interest expenses relating to bank loans	-7 058	-6 764	–	–
- Interest expenses relating to financial leasing	-63	-94	–	–
- Other interest expenses	-5	-9	-5	-9
Net loss on financial assets and liabilities measured at fair value in profit or loss				
- Held for trading: Short-term investments	–	-111	–	-111
Financial expenses/Interest expenses and similar profit/loss items	**-7 126**	**-6 978**	**-5**	**-120**
Net financial expense	**-6 668**	**-6 812**	**452**	46
Of which:				
Interest income from instruments measured at amortized cost	–	–		
Interest expenses from instruments measured at amortized cost	-7 126	-6 867		
Exchange-rate differences that impacted earnings				
Exchange-rate differences that impacted operating loss	17	15	17	15
Financial exchange-rate differences	291	155	291	155
Total	**308**	**70**	**308**	**170**

Note 7 • Taxes

Recognized in profit or loss	Group		Parent Company	
SEK thousands	**2016**	2015	**2016**	2015
Current tax expense (-)/tax income (+)				
Tax expense/tax income for the period	–	–	–	–
Tax adjustments brought forward from earlier years	–	–	–	–
Deferred tax expense (-)/tax income (+)				
Deferred tax expense as a result of the utilization of loss carryforwards previously capitalized	-629	-629	–	–
Deferred tax income in tax loss carryforwards capitalized during the year	–	2 208	–	––
Deferred tax expense attributable to reassessment of capitalized loss carryforwards	–	-8 792	–	–
Deferred tax income attributable to depreciation of revaluation of property	629	629	–	–
Total recognized tax expense/income	**2 208**	**-8 792**	**–**	–

	Group		Parent Company	
SEK thousands	**2016**	2015	**2016**	2015
Reconciliation of effective tax				
Loss before tax	-61 792	-184 739	-68 558	-200 713
Tax on the Parent Company according to current rates, 22%	13 594	40 643	15 083	44 157
Non-deductible expenses	-1 350	-1 311	-1 350	-1 311
Non-taxable revenues	148	149	148	149
Increase in loss carryforwards without equivalent capitalization of deferred taxes	-13 881	-42 995	-13 881	-42 995
Deductible expenses/taxable revenues not recognized in earnings	3 553	3 553	–	–
Increase/decrease in temporary differences for which deferred tax is not recognized	-2 064	-39	–	–
Revaluation of deferred tax	2 208	-8 792	–	–
Recognized effective tax	**2 208**	**-8 792**	**–**	**–**

Tax items recognized directly in other comprehensive income	Group		Parent Company	
SEK thousands	**2016**	2015	**2016**	2015
Tax attributable to change in revaluation reserve	-1 579	9 421	–	–

Tax items recognized directly in equity	Group		Parent Company	
SEK thousands	**2016**	2015	**2016**	2015
Tax attributable to change in revaluation reserve	-629	-629	–	–

Recognized in statement of financial position Deferred tax assets and liabilities	Deferred tax assets Group		Deferred tax liabilities Group		Net Group	
SEK thousands	**2016**	2015	**2016**	2015	**2016**	2015
Tangible fixed assets	–	–	-24 280	-22 701	-24 280	-22 701
Loss carryforwards	24 280	22 701	–	–	24 280	22 701
Tax assets/liabilities	24 280	22 701	-24 280	-22 701	–	–
Offsetting	-24 280	-22 701	24 280	22 701	–	–
Tax assets/liabilities, net	–	–	–	–	–	–

Change in deferred tax in temporary differences and loss carryforwards

SEK thousands	Balance at Jan. 1, 2014	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	Balance at Dec. 31, 2014
Tangible fixed assets	-22 701	629	-1579	-629	-24 280
Loss carryforwards	22 701	1 579	–	–	24 280
	–	2 208	-1579	-629	–

SEK thousands	Balance at Jan. 1, 2015	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	Balance at Dec. 31, 2015
Tangible fixed assets	-32 122	629	9 421	-629	-22 701
Loss carryforwards	32 122	-9 421	–	–	22 701
	–	-8 792	9 421	-629	–

Due to the Group's activities with considerable research and development costs, it is not liable for tax. At the end of 2016, the Group's accumulated loss carryforwards amounted to SEK 3,185 M and was attributable to the Group's Swedish companies. The Parent Company's loss carryforwards amounted to SEK 3,185 M.

Since the time at which the Parent Company and the Swedish subsidiaries may be expected to generate revenues cannot yet be specified, only the portion of the taxable effects of the loss carryforwards corresponding to the deferred tax liability was recognized.

The loss carryforwards for which deferred tax receivables are not recognized amounted to SEK 3,075 M (3,019).

Note 8 • Intangible fixed assets

Parent Company

SEK thousands	Goodwill	Total
Cost		
Opening balance, January 1, 2015	161 497	161 497
Other acquisitions	–	–
Closing balance, December 31, 2015	161 497	161 497
Opening balance, January 1, 2016	161 497	161 497
Other acquisitions	–	–
Closing balance, December 31, 2016	161 497	161 497

Parent Company

SEK thousands	Goodwill	Total
Amortization and impairment losses		
Opening balance, January 1, 2015	-64 599	-64 599
Amortization for the year	-16 150	-16 150
Closing balance, December 31, 2015	-80 749	-80 749
Opening balance, January 1, 2016	-80 749	-80 749
Amortization for the year	-16 149	-16 149
Closing balance, December 31, 2016	-96 898	-96 898
Carrying amounts		
January 1, 2015	96 898	96 898
December 31, 2015	80 748	80 748
January 1, 2016	80 748	80 748
December 31, 2016	64 599	64 599

Depreciation for the year totaling SEK 16,149 thousand is attributable in its entirety to the administrative expenses function in profit or loss.

Goodwill arose in conjunction with the merger of the Parent Company Active Biotech AB and the subsidiary Active Biotech Research AB in December 2010.

Note 9 • Tangible fixed assets

Group

SEK thousands	Land and buildings Recognition based on revaluation method	Equipment, tools fixtures and fittings Recognition based on cost method	Total
Cost			
Opening balance, January 1, 2015	459 233	145 442	604 675
Other acquisitions	–	175	175
Disposal	–	-93 821	-93 821
Revaluation	-39 964	–	-39 964
Closing balance, December 31, 2015	419 269	51 796	471 065
Opening balance, January 1, 2016	419 269	51 796	471 065
Revaluation	10 036	–	10 036
Closing balance, December 31, 2016	429 305	51 796	481 101
Depreciation and impairment losses			
Opening balance, January 1, 2015	-84 233	-138 806	-223 039
Depreciation for the year	-7 179	-2 009	-9 188
Disposal	–	93 821	93 821
Revaluation	-2 857	–	-2 857
Closing balance, December 31, 2015	-94 269	-46 994	-141 263
Opening balance, January 1, 2016	-94 269	-46 994	-141 263
Depreciation for the year	-7 179	-1 731	-8 910
Revaluation	-2 857	–	-2 857
Closing balance, December 31, 2016	-104 305	-48 725	-153 030
Carrying amounts			
January 1, 2015	375 000	6 636	381 636
December 31, 2015	325 000	4 802	329 802
January 1, 2016	325 000	4 802	329 802
December 31, 2016	325 000	3 071	328 071

Tax assessment values

Group	Dec. 31, 2016	Dec. 31, 2015
Tax assessment value, buildings (Forskaren 1, Municipality of Lund)	68 400	68 400
Tax assessment value, land (Forskaren 1, Municipality of Lund)	13 652	13 652

Buildings and land recognized based on revaluation method	Historical carrying amount Dec. 31, 2016	Carrying amount after revaluations Dec. 31, 2016	Historical carrying amount Dec. 31, 2015	Carrying amount after revaluations Dec. 31, 2015
Cost	296 461	429 305	296 461	419 269
Accumulated depreciation	-81 830	-104 305	-74 651	-94 269
Carrying amount	214 631	325 000	221 810	325 000

Valuation of the Forskaren 1 property

The Group recognizes the property at market value. At December 31, 2016, the property was valued by Thomas Ahlbeck Fastighetsekonomi AB at SEK 325 M.
The value of the laboratory equipment and other special equipment was not considered in the valuation.
The value assessment was conducted using a market simulation via yield-based market value assessment and via the local market price method.

Conditions in the cash-flow computation (10 years) and assumptions for valuation:
- Inflation assumption of 1.1 percent in 2016, 2 percent from 2017 and onwards
- Rental increases for rented premises in accordance with agreed rental terms
- Rental increases for internal premises, 100 percent of CPI
- Annual increase of operation/maintenance, 100 percent of CPI
- Direct yield last year's net operating income, 7.5 percent
- Nominal cost of capital, 9.6 percent

Financial leasing in the Group

The Group leases machines and other technical facilities under various financial leasing agreements in which the main terms of the agreement are as follows: rental period 36-60 months, final residual value 10 percent of the cost and an interest rate linked to a floating market interest rate. Property leased through the above-mentioned agreements is recognized in the consolidated balance sheet under equipment, tools, fixtures and fittings. At December 31, 2016, the carrying amount of property covered by financial leasing agreements was SEK 1,124 thousand. See also Note 14 Interest-bearing liabilities.

Operational leasing in the Group

The Group has operational leasing agreements for cars, telephone switchboard and photocopying machines. Payments pertaining to these operational leasing agreements are due as follows: within one year SEK 520 thousand, between one and five years SEK 1,040 thousand, and after five years SEK 0.

Parent Company

SEK thousands	Equipment, tools, fixtures and fittings	Total
Cost		
Opening balance, January 1, 2015	137 918	137 918
Disposal	-116 135	-116 135
Closing balance, December 31, 2015	21 783	21 783
Opening balance, January 1, 2016	21 783	21 783
Closing balance, December 31, 2016	21 783	21 783
Depreciation and impairment losses		
Opening balance, January 1, 2015	-137 361	-137 361
Depreciation for the year	-64	-64
Disposal	116 135	116 135
Closing balance, December 31, 2015	-21 290	-21 290
Opening balance, January 1, 2016	-21 290	-21 290
Depreciation for the year	-40	-40
Closing balance, December 31, 2016	-21 330	-21 330
Carrying amounts		
January 1, 2015	557	557
December 31, 2015	493	493
January 1, 2016	493	493
December 31, 2016	453	453

Note 10 • Other receivables

	Group		Parent Company	
SEK thousands	**2016**	2015	**2016**	2015
Receivables from suppliers	–	8 603	–	8 603
Tax account	–	776	–	776
VAT	1 316	868	1 316	868
Other receivables	34	4	34	3
Total	1 350	10 251	1 350	10 250

Note 11 • Prepaid expenses and accrued income

	Group		Parent Company	
SEK thousands	**2016**	2015	**2016**	2015
Prepaid rent	27	27	27	27
Prepaid insurance	764	1 143	764	1 143
Accrued income	435	688	435	688
Prepaid patenting expenses	820	259	820	259
Prepaid property expenses	347	302	347	302
Other prepaid expenses and accrued income	266	364	267	364
Total	2 659	2 783	2 660	2 783

Note 12 • Shareholders' equity

Consolidated shareholders' equity
Specification of shareholders' equity item Reserves
Revaluation reserve

SEK thousands	**2016**	2015
Revaluation reserve, January 1	80 489	113 889
Revaluation of property	10 036	-39 964
Tax effect of property revaluation	-2 208	8 792
Loss brought forward	-2 857	-2 857
Tax effect of transfer to loss brought forward	629	629
Revaluation reserve, December 31	86 089	80 489

Share capital	Ordinary shares	
Thousands of shares	**2016**	2015
Issued at January 1	89 908	89 908
Cash issue	6 916	–
Issued at December 31 – registered	96 824	89 908

Allocation of profit/loss	
Share premium reserve	27 638 596
Loss brought forward	-327 915 544
Loss for the year	-68 558 249
Total	-368 835 197

At December 31, 2016, the registered share capital comprised 96,824,320 ordinary shares with a quotient value of SEK 3.77. Holders of ordinary shares are entitled to dividends determined successively and the shareholding entitles the holder to voting rights at the Annual General Meeting of one vote per share.

Other capital contributed
Refers to shareholders' equity contributed by the owners in addition to share capital. This includes the share premium reserves transferred to the statutory reserve at December 31, 2005. Effective January 1, 2006 and onward, allocations to the statutory reserve will also be recognized as contributed capital.

Reserves
Revaluation reserve
The revaluation reserve includes value changes attributable to tangible fixed assets.

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

Dividend
The Board of Directors proposes that no dividend be paid for the 2016 fiscal year.

Capital management
In accordance with the Board's policy, the Group's financial objective is to maintain a solid capital structure and financial stability, thereby retaining the confidence of investors and credit providers in the market, and to function as a platform for the continued development of the business operation. Capital is defined as total shareholders' equity. With reference to the focus of the operation, no specific target for the debt/equity ratio has been defined. Neither the Parent Company nor any of its subsidiaries are subject to any external capital requirements.

Parent Company's shareholders' equity
Restricted funds
Restricted funds may not be reduced through the distribution of profits.

Statutory reserve
The purpose of the statutory reserve is to retain a portion of net profit that is not used to cover losses brought forward. Amounts that were allocated to the share premium reserve before January 1, 2006 have been transferred and are now included in the statutory reserve.

Unrestricted equity
In addition to profit/loss for the year, the following funds comprise unrestricted equity, meaning the amount that is available for distribution to shareholders.

Share premium reserve
When shares are issued at a premium, that is, payment is required for the shares in excess of their quotient value, an amount corresponding to the proceeds received in excess of the shares' quotient value is to be transferred to the share premium reserve. Amounts allocated to the share premium reserve from January 1, 2006 are included in unrestricted equity.

Profit/loss brought forward
Profit/loss brought forward comprises the preceding year's profit/loss brought forward, less any dividends paid during the year.

Note 13 • Earnings per share

	Before dilution		After dilution	
SEK	**2016**	2015	**2016**	2015
Earnings per share	-0,65	-2,13	-0,65	-2,13

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

Earnings per share before dilution
The calculation of earnings per share in 2016 was based on loss for the year attributable to the Parent Company's ordinary shareholders amounting to SEK 59,584 thousand (loss: 193,531) and on a weighted average number of shares outstanding during 2016 totaling 91,041,241 (90,845,204). The two components were calculated in the following manner:

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

SEK thousands	**2016**	2015
Loss attributable to the Parent Company's shareholders	-59 584	-193 531

Weighted average number of outstanding ordinary shares, before dilution

Thousands of shares	**2016**	2015
Total number of ordinary shares at January 1	89 908	74 924
Effect of new share issues	1 133	15 921
Weighted average number of ordinary shares during the year, before dilution	91 041	90 845

Earnings per share after dilution
Earnings and the number of shares in the calculation of earnings per share after dilution are the same as for the calculation of earnings per share before dilution since there are no potential ordinary shares that could give rise to a dilutive effect.

Note 14 • Interest-bearing liabilities

	Group	
SEK thousands	**2016**	2015
Long-term liabilities		
Bank loan	206 183	214 688
Financial leasing liabilities	775	1 584
Total	206 958	216 272
Short-term liabilities		
Short-term portion of bank loan	8 505	5 380
Short-term portion of financial leasing liabilities	815	1 110
Total	9 320	6 490

Financial leasing

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

SEK thousands	Amortization	Interest	Total payment
Within one year	815	42	857
Between one and five years	775	31	806
Later than five years	–	–	–
	1 590	**73**	**1 663**

Amortization due within one year is recognized as a short-term liability. Interest on financial leasing agreements is linked to the floating market interest rates.
For further information concerning interest and maturity structures, see Note 18.

Note 15 • Other short-term liabilities

	Group		Parent Company	
SEK thousands	**2016**	2015	**2016**	2015
Personnel tax at source	473	980	473	980
VAT	762	1 084	–	–
Total	**1 235**	**2 064**	**473**	**980**

Note 16 • Accrued expenses and deferred income

	Group		Parent Company	
SEK thousands	**2016**	2015	**2016**	2015
Accrued vacation liability, including social-security costs	3 503	6 894	3 503	6 894
Accrued employer's contributions	314	673	314	673
Other accrued personnel costs	2 049	2 782	2 049	2 782
Accrued Board fees, including social-security costs	771	756	771	756
Accrued auditors' fees	300	300	300	300
Accrued interest	648	602	–	–
Accrued expenses, clinical trials	–	15 097	–	15 097
Accrued property expenses	975	916	975	916
Accrued costs, redundancies	–	8 996	–	8 996
Other items	315	336	315	336
Total	8 875	37 352	8 227	36 750

Note 17 • Categories of financial assets and liabilities and disclosures regarding fair value

In Active Biotech's opinion, the carrying amount comprises a reasonable approximation of the fair value of all of the Group's financial assets and liabilities.
The Group's liabilities to credit institutions and liabilities pertaining to financial leasing bear floating interest rates, which means that the value of the liabilities is not affected by changes in the base interest rate. Also, Active Biotech does not believe that credit margins have changed to any extent that could significantly impact the fair value of liabilities.
The Group's short-term investments are measured at fair value in the statement of financial position, which means that the carrying amount is the same as the fair value of these items. In addition to short-term investments, the Group's financial assets essentially comprise cash and bank balances and receivables with short-term maturities that are recognized after deductions for any impairment. Accordingly, the carrying amount is considered to be a reasonable approximation of the fair value also for these items. The tables below state the carrying amounts for financial assets and financial liabilities by measurement category.

Group 2016

SEK thousands	Accounts and loan receivables	Financial assets/ liabilities at fair value in profit or loss	Other financial liabilities	Total carrying amount
Other long-term receivables	1	–	–	1
Accounts receivable	660	–	–	660
Short-term investments	–	68 714	–	68 714
Cash and bank balances	8 963	–	–	8 963
Total	**9 624**	**68 714**	**–**	**78 338**
Long-term interest-bearing liabilities	–	–	206 958	206 958
Current interest-bearing liabilities	–	–	9 320	9 320
Accounts payable	–	–	3 898	3 898
Accrued expenses	–	–	648	648
Total	**–**	**–**	**220 824**	**220 824**

Group 2015

SEK thousands	Accounts and loan receivables	Financial assets/ liabilities at fair value in profit or loss	Other financial liabilities	Total carrying amount
Other long-term receivables	1	–	–	1
Accounts receivable	529	–	–	529
Short-term investments	–	76 555	–	76 555
Cash and bank balances	27 062	12 065	27 062	
Total	**27 592**	**76 555**	**–**	**104 147**
Long-term interest-bearing liabilities	–	–	216 272	216 272
Short-term interest-bearing liabilities	–	–	6 490	6 490
Accounts payable	–	–	6 625	6 625
Accrued expenses	–	–	602	602
Total	**–**	**–**	**229 989**	**229 989**

Disclosure regarding the determination of fair value

Group 2016

	Level 1	Level 2	Level 3	Total
Short-term investments – on a par with cash and cash equivalents		68 714		68 714

Group 2015

	Level 1	Level 2	Level 3	Total
Short-term investments – on a par with cash and cash equivalents		76 555		76 555

Level 1: according to quoted prices on an active market for the same instrument
Level 2: based on directly or indirectly observable market inputs other than those included in Level 1
Level 3: according to inputs not based on observable market data

Calculation of fair value

Short-term investments

Short-term investments comprise units in a short-term fixed-income fund. The value of the units is based on a valuation obtained from the institute that administers the fund.

Parent Company 2016

SEK thousands	Accounts and loan receivables	Financial assets/ liabilities at fair value in profit or loss	Other financial liabilities	Total carrying amount
Long-term receivables	1	–	–	1
Accounts receivable	625	–	–	625
Short-term investments	–	68 714	–	68 714
Cash and bank balances	4 483	–	–	4 483
Total	**5 109**	**68 714**	**–**	**73 823**
Accounts payable	–	–	3 898	3 898
Total	**–**	**–**	3 898	3 898

Parent Company 2015

SEK thousands	Accounts and loan receivables	Financial assets/ liabilities at fair value in profit or loss	Other financial liabilities	Total carrying amount
Long-term receivables	1	–	–	1
Accounts receivable	441	–	–	441
Short-term investments	–	76 555	–	76 555
Cash and bank balances	12 065	–	–	12 065
Total	**12 507**	**76 555**	**–**	**89 062**
Accounts payable	–	–	6 624	6 624
Total	**–**	**–**	**6 624**	**6 624**

Note 18 • Financial risks and financial policies

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

The Group's financial policy for the management of financial risk has been formulated by the Board and acts as a framework of guidelines and regulations in the form of risk mandates and limits for financing activities. Responsibility for the Group's financial transactions and risks is managed centrally by the Parent Company's finance department. The overriding objective for the finance function is to provide cost-efficient financing and to minimize negative effects on the Group's earnings from market fluctuations. The Board of Active Biotech has established a policy for the investment of the Group's cash and cash equivalents, which, in view of the operational risks associated with the business, stipulates a conservative investment policy. The Group's cash and cash equivalents are to be invested in liquid assets with low credit risk, primarily in short-term Swedish securities, commercial papers and fixed-income and bond funds with high liquidity.

Interest-rate risk

Interest-rate risk relating to cash and cash equivalents

The Group's liquidity, which amounted to SEK 77,677 thousand (103,617) at December 31, was invested at a floating interest rate, which fluctuated between -0.4 - 0.7 percent (-0.1 - 0.0) during the year. Liquidity risk is defined as the risk that the Group could experience problems in fulfilling its obligations associated with financial liabilities. For its short-term planning, the Group has a rolling 12-month liquidity plan that is regularly updated. For its medium-term planning, future revenue and expense flows are regularly forecast based on the anticipated development phase of the projects. In addition, a long-term liquidity forecast is presented to the Board on a regular basis.

Interest-rate risk relating to borrowings

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

The Group's financing sources mainly comprise shareholders' equity, bank loans for financing of property holdings and liabilities for financial leasing commitments. Outstanding interest-bearing liabilities are recognized in Note 14 and a term analysis for financial liabilities is presented below.

Sensitivity analysis: A change in the interest rate of plus/minus 1 percentage point would impact net interest income in the amount of plus/minus SEK 1.5 M (0.2).

Financing risk

Financing risk relates to the risk that financing of Active Biotech's capital requirements and refinancing of loans outstanding may be made more difficult or more expensive. Since Active Biotech has loans that mature on different dates, the financing risk can be reduced.

The liabilities comprise a long-term property loan, a small bank loan and financial leasing liabilities. The company has no short-term loan financing in the form of overdraft facilities. Active Biotech secures short-term access to funds by maintaining good access to liquid funds.

The term analysis below presents the agreed, undiscounted cash flows for the Group's financial liabilities divided among the stated time intervals. The term of the bank loan for the property is until further notice, although the credit provider can terminate the agreement and demand payment with a two-month notice period. Pursuant to the requirements stipulated in IFRS 7, the liability has thus been assigned a time interval of one to three months. However, the company does not expect to be forced to repay the loan within this time frame.

Group 2016 SEK thousands	Nominal amount original currency	Total	Within 1 month	1–3 months	3 months – 1 year	1 – 5 years	5 years and longer
Bank loans, SEK		214 688	–	214 688	–	–	–
Financial leasing liabilities, SEK		1 663	65	116	482	1 000	–
Accounts payable, SEK		3 898	3 897	1	–	–	–
Total		**220 249**	**3 962**	**214 805**	**482**	**1 000**	**–**

Group 2015 SEK thousands	Nominal amount original currency	Total	Within 1 month	1–3 months	3 months – 1 year	1 – 5 years	5 years and longer
Bank loans, SEK		220 068	–	216 068	375	3 625	–
Financial leasing liabilities, SEK		2 858	96	190	901	1 671	–
Accounts payable, SEK		4 018	3 595	423	–	–	–
Accounts payable, EUR	172	1 576	1 576	–	–	–	–
Accounts payable, USD	123	1 031	845	186	–	–	–
Total		**229 551**	**6 112**	**216 867**	**1 276**	**5 296**	**–**

Currency risks

Currency risk comprises the risk that changes in exchange rates will have a negative impact on the consolidated income statement, balance sheet and/or cash flow.

The Group has a currency exposure, since operations are primarily conducted in Sweden. Earnings are exposed to fluctuations in exchange rates since both revenues and costs partly comprise foreign currencies, primarily EUR and USD. In 2016, foreign currencies accounted for 12 percentage points of revenues while the equivalent figure for operating expenses was 6 percentage points.

Sensitivity analysis: A change in exchange rates of plus/minus 10 percentage point would impact the Group's earnings in the amount of plus/minus SEK 0 M (7) in relation to EUR and plus/minus SEK 0 M (1) in relation to USD.

Credit risks

The Group is exposed to the risk of not receiving payment from customers. The Group's credit risks are marginal for its operating activities, since the business has a low invoicing level due to the fact that the business activities currently comprise mainly research and development. The credit risk for receivables related to payments from concluded partnership agreements is considered low. Credit losses or impairment of possible credit losses were charged against earnings in the amount of SEK 0.0 million (0.0).

Credit risks also arise when investing cash and cash equivalents. Cash and cash equivalents are principally invested in short-term Swedish securities, commercial papers and fixed-income and bond funds with high liquidity in well-established banks.

Maturity analysis, due but unimpaired accounts receivable	**2016**		2015	
SEK thousands	Carrying amount unimpaired receivable	Collateral	Carrying amount unimpaired receivable	Collateral
Accounts receivable, not due	37	–	300	–
Accounts receivable, due 0 – 30 days	623	–	198	–
Accounts receivable, due >30 days – 90 days	–	–	31	–
Accounts receivable, due >90 days – 180 days	–	–	–	–
Accounts receivable, due >360 days	–	–	–	–
	660	–	529	–

Note 19 • Pledged assets, contingent liabilities and contingent assets

Pledged assets	Group		Parent Company	
SEK thousands	**2016**	2015	**2016**	2015
In the form of assets pledged for own liabilities and provisions				
Property mortgage	260 000	260 000	–	–
Assets with ownership reservation	3 342	4 445	3 342	4 445
Total	**263 342**	**264 445**	**3 342**	**4 445**
Other collateral provided and pledged assets				
Pension insurances	35 118	32 234	35 118	32 234
Total pledged assets	**298 460**	**296 679**	**38 460**	**36 679**

Contingent liabilities	Group		Parent Company	
SEK thousands	**2016**	2015	**2016**	2015
Guarantees for the benefit of Group companies	–	–	214 688	220 068
Total contingent liabilities	**–**	**–**	**214 688**	**220 068**

Note 20 • Group companies

Holdings in subsidiaries

(SEK thousands)	Corp. Reg. No.	Registered office	No. of shares/percentage	Nominal value	Carrying amount Dec. 31, 2016	Carrying amount Dec. 31, 2015
Active Forskaren 1 KB	969646-4677	Lund			40 000	40 000
Actinova AB	556532-8860	Lund	1 000 / 100%	100	100	100
Active Security Trading AB	556092-7096	Lund	400 / 100%	400	450	450
Total					40 550	40 550

Change in carrying amount of shares in subsidiaries

SEK thousands	**2016**	2015
Cost, January 1	40 550	40 550
Accumulated cost, December 31	40 550	40 550
Carrying amount, December 31	40 550	40 550

Note 21 • Supplementary data to the cash-flow statement

	Group		Parent Company	
SEK thousands	**2016**	2015	**2016**	2015
Interest paid and dividends received				
Interest received	166	11	166	10
Interest paid	-7 081	-6 995	-5	-120
Total	**-6 915**	**-6 984**	**161**	**-110**
Adjustments for non-cash items				
Depreciation/amortization and impairment of assets	11 768	12 045	16 189	16 214
Total	**11 768**	**12 045**	**16 189**	**16 214**
Transactions not involving payment				
Acquisition of assets through financial leasing	–	175		
Cash and cash equivalents				
Cash and cash equivalents consist of the following components:				
Cash and bank balances	8 963	27 062	4 483	12 065
Short-term investments	68 714	76 555	68 714	76 555
Total	**77 677**	**103 617**	**73 197**	**88 620**

Note 22 • Important estimates and assessments

The preparation of financial statements in accordance with IFRS requires company management to make assessments and estimates that affect the recognized amounts. The actual outcome may deviate from these estimates and assessments. The areas in which important estimates and assessments have been made which could imply adjustments to carrying amounts in forthcoming fiscal years are primarily the valuation of the Forskaren 1 property as well as assumptions regarding the company's financing and continued operation.

Forskaren 1 property

The company owns the Forskaren 1 property. The company conducts operations in the property and leases the property to other companies. On assignment from the company, Thomas Ahlbeck Fastighetsekonomi AB performed a valuation of the property at the end of 2016 (see Note 9). The estimated market value is based on assumptions on future revenues, expenses, vacancy levels and the value trend of similar properties. At December 31, 2016, the property's market value was estimated at SEK 325 M.

Financing

The company is expected to generate a negative cash flow until such time as the company receives annual revenues from products in the market. This capital requirement can be funded by contributions from owners, out-licensing of projects, revenues from collaboration agreements and service and rental revenues from leasing of premises. The Group's ability to continue operating is dependent on the availability of sufficient cash and cash equivalents to finance the business until the receipt of revenues from the agreement that Active Biotech has with Teva Pharmaceutical Industries Ltd regarding the development and commercialization of the quinoline compound laquinimod or with other partners. The failure to secure funding may negatively impact the company's operations, financial position and operating result. The Board of Directors and company management regularly assess the company's capital requirements.

Note 23 • Events after the balance-sheet date

On January 9, 2017, Active Biotech announced that the European Patent Office had decided to grant Active Biotech's patent application covering tasquinimod for the treatment of multiple myeloma. The patent was granted European Patent No. 3041472 on February 1, 2017 and has a duration extending until 2035.
The European Patent Office also decided to grant Active Biotech's patent application covering a substance group in the SILC project. The patent was granted European Patent No. 2991990 on February 1, 2017 and has a duration extending until 2035. The company has now secured patent protection for two of the three chemically independent substance classes in the project.
On January 31, 2017, the FDA announced that laquinimod had been granted Orphan Drug Designation in the US for the treatment of Huntington's disease.
On May 5, 2017 Teva and Active Biotech announced that CONCERTO trial did not meet primary endpoint.

Note 24 • Related-party transactions

Close relationships

With regard to the Group's and Parent Company's subsidiaries, see Note 20.
The composition of the Board and information relating to senior executives is presented on pages 52 and 53.

Related-party transactions

During the year, no transactions with shareholders or members of the Board took place apart from the remuneration concerning Board fees presented in Note 5.
For information concerning transactions with key individuals in managerial positions, see Note 5.
In 2016, the Parent Company's sales of services to Group companies totaled SEK 18,946 thousand (19,012). The Parent Company's purchases of services from subsidiaries amounted to SEK 14,818 thousand (27,179) in 2016.
The Parent Company's receivables and liabilities relative to the subsidiaries as per December 31, 2016 are presented in the Parent Company's balance sheet.

Note 25 • Information relating to the Parent Company

Active Biotech AB is a Swedish-registered limited liability company with its registered office in Lund, Sweden. The Parent Company's shares are listed on Nasdaq Stockholm.
The address of the head office is Scheelevägen 22, Lund, Sweden. The consolidated financial statements for the 2016 fiscal year comprise the Parent Company and its subsidiaries, referred to jointly as the Group.

Approval and adoption

The Annual Report and the consolidated financial statements were approved for issue on May 17, 2017. The consolidated income statement, statement of comprehensive income and statement of financial position and the Parent Company's income statement and balance sheet will be subject to adoption by the Annual General Meeting on June 15, 2017.

Statement by the Board of Directors

The Board of Directors and the President & CEO affirm that the Annual Report was prepared in accordance with generally accepted accounting principles in Sweden and that the consolidated financial statements were prepared in accordance with the international accounting standards referred to in regulation (EC) No. 1606/2002 of the European Parliament and the Council dated July 19, 2002 governing the application of international accounting standards.

The annual accounts and the consolidated financial statements provide a true and fair view of the Group's and Parent Company's financial position and results of operations. The Directors' Report for the Group and the Parent Company provides a true and fair view of the Group's and the Parent Company's operations, position and results, and describes significant risks and uncertainties that the Parent Company and Group companies face.

Lund, May 17, 2017
The Board of Directors of Active Biotech AB (publ)

MATS ARNHÖG
Chairman

MAGNHILD SANDBERG-WOLLHEIM
Board member

PETER SJÖSTRAND
Board member

PETER THELIN
Board member

TOMAS LEANDERSON
President & CEO

We submitted our Audit Report on May 17, 2017
KPMG AB

LINDA BENGTSSON
Authorized Public Accountant

Auditor's Report

To the general meeting of the shareholders
of Active Biotech AB (publ), corp. id 556223-9227

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Active Biotech AB (publ) for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 6-41 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the income statement and statement of financial position for the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Financing

See disclosure 22 and the description of Risk factors and Outlook for 2017 in the Directors' report on pages 17 and 19 in the annual account and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

During 2016, the group has changed focus for its business and has gone from own development of drugs to mainly supporting its partners Teva Pharmaceutical Industries Ltd in the developing of laquinimod and NeoTX in the development of ANYARA. In connection with this, a reorganization was made and the number of employees as well as operating costs have been significantly reduced.

The group's ability to continue as a going concern depends on the availability of sufficient liquid funds and/or assets that can be converted into liquid funds to carry on its business until laquinimod, ANYARA or any of its other projects generates revenue.

During the fourth quarter 2016, a rights issue to existing shareholders was implemented that generated approximately 54 SEK millions to the group after issue expenses.

Cash and cash equivalents amount to 78 SEK million at 31 December 2016.

Response in the audit

We have considered the decision of the Board to apply the going concern principle when preparing the annual accounts and consoli-dated accounts. We have evaluated the latest available cash forecast and assessed the reasonableness and support for the judgments underpinning the forecasts. We discussed with group management how they determined the assumptions and considered these in our assessment.

The key areas that we have focused on in the cash forecast are:

- Expected payments related to the property Forskaren 1, such as rental income, amortizations and interest pay-ments;
- Expected cash flows from other sources such as develop-ment partnership;
- Expected cash flows from the remaining operating activi-ties;
- Access to future financing such as a rights issue or sale of real assets.

We have assessed if the group is contractually committed to the estimated cash flows and if they are depending on certain actions or results, and, where applicable, evaluated the documentation available to support the assumptions that the expected result was achievable and to determine that the assumptions made were reasonable.

We have evaluated to what extent the group has committed to making investments in the property Forskaren 1 in the near future, and if investments that can be delayed, if possible, to manage payments.

We discussed the plans and the potential sources of funding with group management and evaluated these in relation to the available evidence and past experience.

Valuation of property

See disclosure 9, disclosure 22 and accounting principles on page 24 in the annual account and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

The carrying value of the property Forskaren 1 is 325 SEK million, representing 79% of total assets of the group.

The property is valued in accordance with the revaluation model, which means that it is valued at fair value less accumulated depreciation and adjustments for revaluations.

The carrying value as at 31 December 2016 is based on an external, independent valuation. The valuation is conducted based on a market simulation through a yield-based market value assessment and through the local market price method.

There is a risk that the assessments underpinning the carrying value of the property can turn out to be incorrect, whereby an adjustment of the value would have an direct effect on the comprehensive income of the year.

Response in the audit

We have assessed the competence and independence of the external property valuer with the purpose to evaluate if there are any circumstances that may have affected the valuer's competence or independence when performing the valuation.

We have tested the performed valuation by using market data from sources independent from the group, especially assumptions regarding yield, rents and vacancies.

Furthermore, we have assessed the content of the disclosures made relating to the valuation as presented in the annual accounts and the consolidated accounts.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-5, 57-51 and 56-58. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted

auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Active Biotech AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the loss be dealt with in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director
The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility
Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

Malmö 17 May 2017

KPMG AB

Linda Bengtsson
Authorized Public Accountant

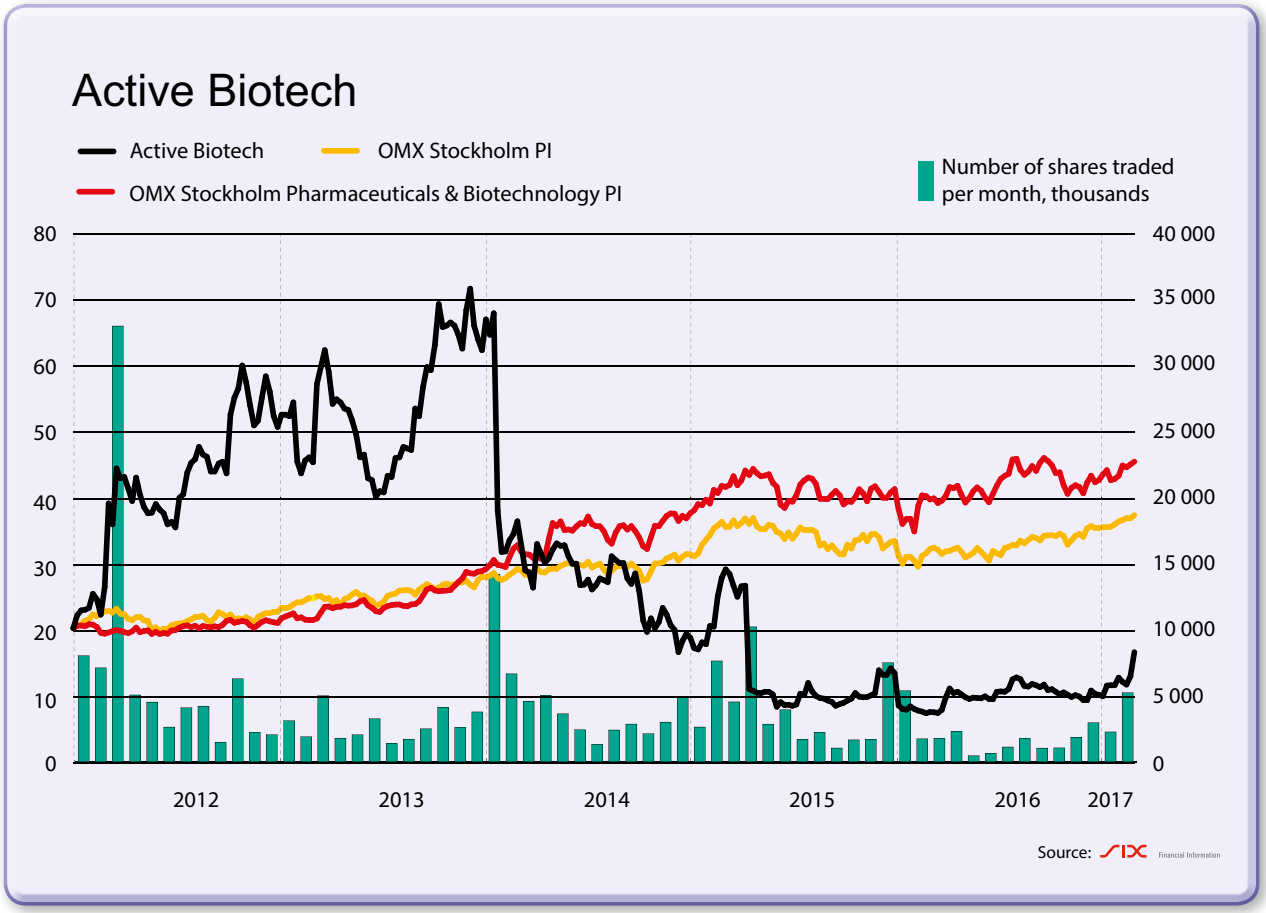
Summary of financial development

SEK M	2016	2015	2014	2013	2012
Income statement					
Net sales	19,0	16,3	10,4	116,0	227,9
Operating expenses	-74,1	-194,2	-238,8	-325,0	-391,1
(of which, depreciation/amortization)	-11,8	-12,0	-12,3	-13,0	-12,9
Operating loss	-55,1	**-177,9**	**-228,4**	**-209,0**	**-163,2**
Net financial expense	-6,7	-6,8	-5,3	-5,3	-8,7
Loss before tax	**-61,8**	**-184,7**	**-233,7**	**-214,3**	**-171,95**
Tax	2.2	-8,8	2,2	2,2	-3,1
Loss for the year	**-59,6**	**-193,5**	**-231,5**	**-212,1**	**-175,0**
Balance sheet					
Tangible fixed assets	328,1	329,8	381,6	381,0	381,5
Financial fixed assets	0,0	0,0	0,0	0,0	0,0
Other current assets	7,1	16,0	12,4	10,6	98,5
Cash and cash equivalents	77,7	103,6	328,5	376,2	216,7
Total assets	**412,9**	**449,4**	**722,5**	**767,8**	**696,7**
Shareholders' equity	182,6	180,6	405,3	405,4	339,9
Interest-bearing provisions and liabilities	216,3	222,8	229,5	230,9	236,5
Non interest-bearing provisions and liabilities	14,0	46,0	87,7	131,5	120,3
Total shareholders' equity and liabilities	**412,9**	**449,4**	**722,5**	**767,8**	**696,7**
Condensed cash-flow statement					
Cash flow from operating activities before changes in working capital	-50,0	-172,7	-221,5	-201,4	-159,1
Changes in working capital	-23,1	-45,2	-45,6	99,1	-81,3
Cash flow from investing activities	–	–	-1,9	0,0	0,0
Cash flow from financing activities	47,2	-6,9	221,3	261,8	-8,1
Cash flow for the year	**-25,9**	**-224,8**	**-47,7**	**159,5**	**-248,5**
Key figures					
Capital employed (SEK M)	398,9	403,4	634,8	636,3	576,4
Net indebtedness, SEK million	138,6	119,2	-99,0	-145,3	19,8
Surplus value in short-term investments (SEK M)	–	–	–	–	–
Return on shareholders' equity (%)	-33	-66	-57	-57	-42
Return on capital employed (%)	-14	-34	-35	-33	-24
Equity/assets ratio (%)	44	40	56	53	49
Proportion of risk-bearing capital (%)	44	40	56	53	49
Net debt/equity ratio, multiple	0,76	0,66	neg	neg	0,06
Interest-coverage ratio (multiple)	neg	neg	neg	neg	neg
Research and development costs (SEK M)	-58,2	-176,2	-221,9	-308,0	-375,3
Average number of employees	28	55	58	61	76
Salary expenses, incl. social-security costs (SEK M)	-29,2	-68,9	-61,5	-65,0	-80,6
Data per share					
Loss per share (SEK)	-0,65	-2,15	-3,02	-2,81	-2,54
Shareholders' equity (SEK)	2,01	2,01	5,41	5,41	4,93
Net worth (SEK)	2,01	2,01	5,41	5,41	4,93
Unrestricted liquidity (SEK)	0,85	1,15	4,38	5,02	3,14
Market price of share at year-end (SEK)	10,45	13,80	18,80	69,50	55,0
Dividends (SEK)	0	0	0	0	0
Share price/shareholders' equity (%)	520	687	348	1 285	1 116
Share price/net worth (%)	520	687	348	1 285	1 116
Number of shares at end of period (thousands)	96 824	89 908	74 924	74 924	68 924
Weighted average number of ordinary shares before dilution (thousands)	91 041	89 908	76 755	75 433	68 924
Maximum number of shares upon exercise of outstanding warrants (thousands)	96 824	89 908	76 755	75 433	68 924

The share

General information about the Active Biotech share
Shares in Active Biotech AB are listed on Nasdaq Stockholm (Small Cap). The share was originally listed on December 1, 1986, on what was then known as the O-list of the Stockholm Stock Exchange. The company was converted into a dedicated biotechnology company in 1997. The latest price information is available on Nasdaq's website under the ticker ACTI. The Active Biotech share is included in Nasdaq Stockholm's Pharmaceuticals, Biotech & Life Science index. The diagram in this section shows the price trend for the Active Biotech share for the period January 2012–February 2017.

Share capital
The company's share capital is quoted in SEK and distributed among the shares issued by the company with a quotient value that is also expressed in SEK. At December 31, 2016, the share capital in Active Biotech amounted to approximately 364,964,039 distributed among 96,824,320 shares. The share's quotient value is approximately SEK 3.77.



Share price development

On the final day of trading in December 2015, the share price was SEK 13.80, while at the same date in 2016, it was SEK 10.45. The highest price paid for the share during the year was SEK 14.70 (August 1, 2016).

Changes in share capital

The table on the next page shows the changes in Active Biotech's share capital from 2000 to January 2017.

Dividend policy

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

Shareholders

On April 28, 2017, the number of shareholders in Active Biotech amounted to 11,940.

Shareholders

The following reflects circumstances as known to the company at April 28, 2017.

Owner	No. of shares	Holding, %
MGA Holding AB	25 334 270	26,2
Nordstjernan AB	12 730 301	13,1
Avanza Pension	4 249 269	4,4
Third Swedish National Pension Fund	2 745 815	2,8
Investor	2 591 915	2,7
Fourth Swedish National Pension Fund	2 551 706	2,6
Euroclear	1 844 040	1,9
Nordnet Pensionsförsäkring AB	1 640 526	1,7
Credit Suisse	1 479 980	1,5
Nordea Investment Funds	1 425 702	1,5
Ten largest owners	**56 593 524**	**58,4**
Total	**96 824 320**	**100,0**

Shareholder statistics, April 28, 2017

Shareholding interval	No. of shareholders	% of all shareholders	No. of shares	% of all share capital	Average per shareholder
1 – 1 000	8 508	71,3	2 283 656	2,4	268
1 001 – 10 000	2 943	24,6	8 644 064	8,9	2 937
10 001 – 100 000	420	3,5	10 765 699	11,1	25 633
100 001 –	69	0,6	75 130 901	77,6	1 088 854
Total	11 940	100,0	96 824 320	100,0	8 109

Changes in share capital

Year	Transaction	Change in number of shares	Change in share capital	Total no. of shares Class A shares	Total no. of shares Class B shares	Total share capital, SEK	Quotient value, SEK
	Opening balance			1 963 745	9 282 547	281 157 300	25,00
2000	Reclassification A to B	0	0	1 287 531	9 958 761	281 157 300	25,00
2001	Reclassification A to B	0	0	1 169 691	10 076 601	281 157 300	25,00
2002	Reclassification A to B	0	0	1 145 024	10 101 268	281 157 300	25,00
2003	Reduction of share capital (June)	0	-168 694 380	1 145 024	10 101 268	112 462 920	10,00
2003	Rights issue (June)	22 492 584	224 925 840	1 145 024	32 593 852	337 388 760	10,00
2003	Reclassification A to B	0	0	1 128 174	32 610 702	337 388 760	10,00
2003	Reorganization as a single share class (Dec.)	0	0	33 738 876		337 388 760	10,00
2005	Conversion (Jan.-May)	1 681	16 810	33 740 557		337 405 570	10,00
2005	Rights issue (June/July)	5 623 426	56 234 260	39 363 983		393 639 830	10,00
2005	Conversion (Aug.-Sep.)	228 241	2 282 410	39 592 224		395 922 240	10,00
2006	Conversion (Jan.-May)	160 644	1 606 440	39 752 868		397 528 680	10,00
2006	Reduction of share capital (May)	0	-247 686 499	39 752 868		149 842 181	3,77
2006	Conversion (June-Dec.)	42 553	160 397	39 795 421		150 002 578	3,77
2007	Conversion (Jan.)	204 579	771 128	40 000 000		150 773 706	3,77
2007	Rights issue (Feb.)	4 000 000	15 077 371	44 000 000		165 851 077	3,77
2007	Conversion (March)	3 300 115	12 439 264	47 300 115		178 290 341	3,77
2008	Rights issue (June)	3 941 676	14 857 527	51 241 791		193 147 869	3,77
2009	Rights issue (June)	12 810 447	48 286 964	64 052 238		241 434 833	3,77
2010	Private placement (April)	1 418 000	5 344 928	65 470 238		246 779 761	3,77
2010	Employee stock options	529 682	1 996 553	65 999 920		248 776 314	3,77
2011	Private placement (Jan.)	2 500 000	9 423 357	68 499 920		258 199 670	3,77
2011	Employee stock options	423 662	1 596 927	68 923 582		259 796 598	3,77
2013	Private placement (March)	6 000 000	22 616 055	74 923 582		282 412 653	3,77
2015	Rights issue (Jan.)	14 984 716	56 482 529	89 908 298		338 895 183	3,77
2016	Rights issue (Dec.)	6 916 022	26 068 856	96 824 320		364 964 039	3,77

Alternative key ratios and definitions

Alternative key figures are used to describe the development of operations and to increase the comparability between periods. These are not defined according to IFRS regulations, but they are consistent with how the Group Management and Board of Directors measure the company's financial development. Alternative key ratios should not be seen as substitutes for financial information presented in accordance with IFRS but as a supplement.

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

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

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

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

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

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

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

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

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

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

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

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

Intellectual property rights

A key aspect of Active Biotech's strategy is to protect its knowledge through strong patents. The patent protection covers inventions of chemical compounds, biotechnological structures, methods and processes related to the company's operation in key markets. Active Biotech has built up its position in the area of patents through strategically defined patent families, primarily in the areas of autoimmunity/inflammation and cancer. Patents and patent applications refer primarily to the commercially important markets of Europe, the US and Japan. Two applications in Europe were approved in the early stage SILC development project in 2016/2017 and one additional application is being processed by the European Patent Office. This application also relates to currently unknown compounds that bind to the S100A9 target protein.

Laquinimod and tasquinimod are specifically protected by seven patent families and a large number of national patents, see the table below. In 2017, one patent application for medical treatment of multiple myeloma using tasquinimod was approved by the European Patent Office. Another application regarding the treatment of acute forms of leukemia is being processed by the European Patent Office. The company also has patent protection for compounds that are closely related to laquinimod and tasquinimod, for compounds in the ANYARA project, for the compound paquinimod and for other projects.

Patent protection for tasquinimod

Type of protection	Area	Status	Year of expiry
Product (WO0003991)	Europe US Japan *(total 53)*	Granted Granted Granted *(granted 53)*	2019 2019 2019
Treatment method (WO0130758)	Europe US Japan *(total 27)*	Granted Granted Granted *(granted 27)*	2020 2020 2020
Manufacturing method (WO03106424)	Europe US Japan *(total 53)*	Granted Granted Granted *(granted 51, application 2)*	2023 2025 2023
Alternative manufacturing method 2031 (WO2012004338)	Europe US Japan *(total 36)*	Granted Granted Granted *(granted 33, application 3)*	Granted 2031 2031
Treatment method (WO2016042112)	Europe US Japan *(total 25)*	Granted Application Application *(granted 12, application 13)*	2035 2035 2035
Treatment method (WO2016078921)	Europe US Japan *(total 25)*	Application Application Application *(application 25)*	2035 2035 2035

Patent protection for ANYARA

Type of protection	Area	Status	Year of expiry
Product (WO2003002143)	Europe US Japan *(total 31)*	Granted Granted Granted *(granted 27, application 4)*	2021, 2022 2022 2022
Product (WO9601650)	US (total 1)	Granted (granted 1)	2024
Treatment method (WO2006015882)	Europe US *(total 14)*	Granted Granted *(granted 14)*	2025, 2026 2025

Patent protection for laquinimod

Type of protection	Area	Status	Year of expiry
Product (WO9955678)	Europe US Japan *(total 53)*	Granted Granted Granted *(granted 53)*	2019 2019 2019
Manufacturing method (WO03106424)	Europe US Japan *(total 53)*	Granted Granted Granted *(granted 51, application 2)*	2023 2025 2023
Pharmaceutical formulation (WO2005074899)	Europe US Japan *(total 53)*	Granted Granted Granted *(granted 52, application 1)*	2025 2027 2025
Alternative manufacturing method 2031 (WO2012004338)	Europe US Japan *(total 36)*	Granted Granted Granted *(granted 33, application 3)*	Granted 2031 2031

Patent protection for SILC

Type of protection	Area	Status	Year of expiry
Product (WO2014184234)	Europe US Japan *(total 20)*	Granted Application Application *(granted 10, application 10)*	2034 2034 2034
Product (WO2015177367)	Europe US Japan *(total 20)*	Granted Application Application *(granted 10, application 10)*	2035 2035 2035
Product (WO2016042172)	Europe US Japan *(total 20)*	Application Application Application *(application 20)*	2035 2035 2035

Corporate Governance Report 2016

Active Biotech is a Swedish public limited liability company whose shares are traded on Nasdaq Stockholm (Small Cap). In accordance with its Articles of Association, Active Biotech is to engage in research, development, production, marketing and sales of medical, chemical and biotechnology products, conduct administrative services for the Group, own and manage properties, and undertake any other operations compatible therewith. This Corporate Governance Report describes Active Biotech's corporate governance, which includes the management and administration of the company's business and internal control of the financial reporting. Corporate Governance in Active Biotech is based on applicable rules (primarily the Swedish Companies Act and accounting rules and regulations), the Articles of Association, Nasdaq Stockholm's Rule Book for Issuers, internal guidelines and policies, and the Swedish Corporate Governance Code.

Application of and deviations from the Code

Active Biotech applies the Swedish Corporate Governance Code (the Code). Information about the Code can be found at www.corporategovernanceboard.se. The company deviated from item 2.4 of the Code in 2016. The Election Committee appointed the Chairman of the Board to be the Chairman of the Election Committee. The motivation for this is the Election Committee's assessment that is natural that the person who is indirectly the largest owner of Active Biotech should also lead the work of the Election Committee.

Shareholders

At December 31, 2016, the number of shareholders in Active Biotech amounted to 10,874. For information concerning the company's major shareholders and the ownership structure, see page 49 of this Annual Report.

Annual General Meeting

The Annual General Meeting (AGM) is Active Biotech's highest decision-making body. In addition to shareholders' statutory rights to participate in the AGM, Active Biotech's Articles of Association stipulate the requirement of advance notification of participation at the Meeting within a prescribed time as stated in the notice of the AGM. The shareholder is to state the number of accompanying assistants, if any, in such notification.

At the AGM, each share carries one vote. Each shareholder entitled to vote at the Meeting may vote for the full number of shares held. Each share offers equal entitlement to dividends and any surplus on liquidation of the company. At the AGM, which is held not more than six months after the close of the fiscal year, the annual accounts for the preceding year are adopted, the Board of Directors is elected, auditors are appointed, if applicable, and other statutory matters are addressed. Between AGMs, the Board of Directors is the company's highest decision-making body.

At the AGM on May 26, 2016, it was resolved to grant authorization to the Board, for a period that does not extend past the date of the next AGM, on one or several occasions, with or without pre-emptive rights for shareholders, to resolve on the issue of new shares and/or convertibles. It should also be possible to make such an issue resolution stipulating in-kind payment, the right to offset debt or other conditions. The authorization may not be utilized to a greater extent than would enable a total of not more than seven million shares to be issued and/or arise through the conversion of convertibles issued with the support of the authorization.

Election Committee

At the AGM on May 26, 2016, it was resolved that the company's Chairman, based on ownership at the end of September 2016, convene an Election Committee to prepare proposals for the 2017 AGM. According to the resolution, the Election Committee comprises the Chairman of the Board and representatives of each of the three largest shareholders in the company. The members of the Election Committee receive no remuneration from the company for their work. The Election Committee performs the tasks incumbent on the Election Committee under the Code. The composition of the Election Committee was announced on November 23, 2016. A meeting of the Election Committee was convened on one occasion ahead of the 2017 AGM, which was attended by all of its members.

Members	Represents	Board member or not
Mats Arnhög	Chairman of the Board	Chairman
Johnny Sommarlund	MGA Holding AB	Not a member
Tomas Billing	Nordstjernan AB	Not a member
Lennart Johansson	Investor AB	Not a member

Board of Directors

In accordance with Active Biotech's Articles of Association, the Board comprises between three and nine members with at most nine deputies. The 2016 AGM elected the current Board, which consists of four ordinary members with no deputies. Mats Arnhög was elected Chairman of the Board. The AGM resolved that remuneration of the Board's ordinary members be paid in the amount of SEK 125,000 per year for Board members who are not employed at the company, and remuneration of the Chairman of the Board be paid in the amount of SEK 250,000 per year. For a more detailed presentation of the Board members and President & CEO, see page 56–57 of this Annual Report. Of the Board members elected

by the 2016 AGM, all are independent in relation to the company and executive management. Three of the four members are independent in relation to the company's major shareholders. Mats Arnhög is not independent of the shareholder MGA Holding AB, in which he is Chairman of the Board and owner.

The work of the Board and formal work plan

The Board works in accordance with an established formal work plan describing the minimum number of Board meetings to be held each year, routines for the preparation of the agenda minutes of the meetings as well as the distribution of material. One section of the formal work plan regulates the division of duties in the Board and describes the responsibilities of the Board, the Chairman and the President & CEO. The Board principally devotes itself to general and long-term issues as well as to issues of an exceptional nature or of otherwise substantial importance. The Chairman directs the work of the Board and represents the Board both externally and internally. The formal work plan also identifies the Board members who, in accordance with specific decisions, have been appointed as the management's contacts in the event of a crisis. At each scheduled Board meeting, the President & CEO reports on operations. The report comprises information on project development, plans and progress in research activities, financial reporting with forecasts as well as business development. The Board decides on issues in which the Swedish Companies Act and the Articles of Association require the Board's decision as well as on such issues as policy matters, strategy, business decisions (such as research plans), budget, business plans and key agreements. In 2016, eight meetings were held at which minutes were taken. Important issues addressed by the Board included development of research projects, business development projects, partner strategy, financial statements and budget and financing matters. Minutes were recorded by the Board's secretary, a role that was filled by the company's CFO Hans Kolam during the year. The Chairman of the Board ensures that an annual assessment of the Board's work is conducted that provides the Board members with the opportunity to present their views on work procedures, Board material, their own efforts and the efforts of other Board members and the scope of the task.

The Election Committee has been informed of the results of the assessment. On the basis of this information, the Election Committee can determine the skills and experience that Board members are required to hold. The Election Committee has also had access to information regarding the company's assessment of the quality and efficiency of the auditor's work, including recommendations concerning the appointment of auditors and auditor's fees. The assessment is that the Board's collective expertise is favorably compatible with the company's strategic visions and goals. The Board functions well and all members make a constructive contribution to the strategic discussions and the governance of the company. The dialog conducted between the Board and management was also deemed to be productive.

Board member	Attendance at Board meetings	Independent/dependent Company	Owners
Mats Arnhög	8/8	independent	dependent
Peter Thelin	8/8	independent	independent
Peter Sjöstrand	7/8	independent	independent
Magnhild Sandberg	8/8	independent	independent

Remuneration and Audit Committee

The company does not have separate committees for remuneration and audit matters. Instead, these matters are dealt with by the Board in its entirety. Salaries, remuneration, terms and conditions of employment and so forth, for the Board, President & CEO and executive management are detailed in Note 5 on pages 27–29.

Control systems and risk management regarding financial reporting

In accordance with the Companies Act and the Swedish Corporate Governance Code, the Board of Directors is responsible for the company's internal control. Active Biotech's work on internal control is designed to provide reasonable assurance that the company's goals are achieved in terms of an appropriate and efficient operation, reliable financial reporting and compliance with applicable legislation and regulations. Active Biotech's business is primarily operated at one site and is therefore deemed to be of limited complexity.

The internal control environment at Active Biotech follows the established COSO framework that comprises the following five components:

1. *Control environment*
2. *Risk assessment*
3. *Control activities*
4. *Information and communication*
5. *Monitoring*

1. Control environment

The basis of the internal control of the financial reporting is the control environment that comprises the organization, decision-making procedures, authorities and responsibility, as documented and communicated in governance documents such as internal policies, guidelines and manuals. Authorizations and responsibilities are documented, such as the division of duties between the Board and the President & CEO.

The guidelines for Active Biotech's operations are available on the company's intranet.

2. Risk assessment
Structured risk assessments and risk management enables identification of significant risks that affect the internal control relating to financial reporting and where these risks are found. The aim of risk management is to minimize the number of risk factors within the financial reporting.

3. Control activities
The aim of control activities is to prevent, detect and correct errors and non-conformities in the financial reporting. Activities include analytical follow-ups and comparison of earnings trends, account reconciliations and balance specification, approval and reporting of business transactions and partnership agreements, power of attorney instructions, authorization manual, accounting policies and measurement principles.

4. Information and communication
Active Biotech has information and communication channels that aim to ensure that information relating to the financial reporting is provided efficiently and accurately. The guidelines for the financial reporting have been established in a policy document. Meetings are held at management group level within the company, and subsequently at the level deemed suitable by the managers, and a number of meetings are held for all employees. The Board regularly receives financial reports on the Group's financial position and earnings trend, including comments, and the Group's financial situation is addressed at every Board meeting. The Board of Active Biotech ensures the quality of financial reporting by ensuring that the company has an appropriate organization combined with procedures and instructions for its work on financial reporting. The aim of the procedures for the external provision of information is to provide the market with relevant, reliable and correct information on Active Biotech's performance and financial position. Active Biotech has an information policy that meets the requirements imposed on listed companies. Financial information is regularly provided in the form of:

- Year-end and interim reports, published as press releases.
- Annual reports.
- Press releases regarding important news and events that may have a significant impact on the valuation of the company and the share price.
- Presentations and telephone conferences for financial analysts, investors and media.

All reports, presentations and press releases are published on the Group's website, www.activebiotech.com, when they are simultaneously communicated to the market.

5. Monitoring
The internal control is monitored at various levels at Active Biotech. The Board discusses all interim reports, year-end reports and annual reports before they are published.

The company's external auditors report, in person, on their observations and opinion of the internal control to the Board.

Internal audit
Given the Group's uncomplicated legal and operational structure and the established governance and internal control systems, the Board has decided not to have a separate internal audit function.

The Board evaluates and continuously follows up the issue of possibly establishing an internal audit function.

Auditors
The company has at least one and at most two auditors and at most two deputy auditors. At the AGM on May 26, 2016, KPMG AB was elected as the company's auditor for the period extending until the end of the AGM held in 2017. Authorized Public Accountant Linda Bengtsson is auditor-in-charge. Information concerning auditors' fees is presented in Note 4 on page 27. The interim report for the January-September period 2016 was the subject of review by the auditors.

Policies
Information policy
With the aim of determining principles for the company's communication, the Board has established an information policy. This summarizes overriding goals and responsibilities for the external publication of Active Biotech's information. The goal when providing information to the stock market is to achieve a correct valuation of the company's share that reflects the company's underlying values, growth and earnings capacity in as stable a manner as possible. An unconditional requirement is that the information to the stock market complies with Nasdaq Stockholm's Rule Book for Issuers and applicable legislation and ordinances. The company's Board, management and personnel with operational responsibility must possess the requisite level of competence, and the company must have an organization in place that ensures the rapid and correct dissemination of stock market information.

Environmental policy
Within Active Biotech, environmental and safety work is important and the company has therefore established an environmental policy. Responsibility is decentralized in the various departments in the Group so that each manager and employee is responsible for meeting goals relating to both the internal and external environment,

as well as safety. This applies to all areas from proprietary research to contract manufacturing of candidate drugs and production. In addition, Active Biotech places great importance to ensuring that external partners have their own environmental and safety requirements that conform to the company's values.

Responsible treatment of laboratory animals

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

Auditors' report on the Corporate Governance Report

To the annual meeting of the shareholders of Active Biotech AB, Corporate Registration Number 556223-9227

Assignment and responsibility

The Board of Directors is responsible for the 2016 Corporate Governance Report on pages 52–55 and for ensuring that it has been prepared in accordance with the Annual Accounts Act.

Scope of review

The audit was conducted in accordance with FAR's auditing standard RevU16, "The auditor's examination of the Corporate Governance Statement". This means that our examination of the Corporate Governance Report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that our audit provides a reasonable basis for our opinion as given below.

Opinion

A Corporate Governance Report has been prepared. Information in accordance with Chapter 6 section 6 second paragraph items 2–6 of the Annual Accounts Act and Chapter 7 section 31 second paragraph of the same Act are consistent with the annual report and the consolidated statements and comply with the Annual Accounts Act.

Malmö, May 17, 2017

Linda Bengtsson
Authorized Public Accountant
KPMG AB

Board of Directors and Auditors

Mats Arnhög

Board member since 2000.
Chairman of the Board since 2003.

Born: 1951

Education: M.Sc. Stockholm School of Economics.

Other current assignments:
Chairman of MGA Holding AB, MGA Förvaltning AB, Rederi AB Sea-Link and Psoriasis + Creams Sweden AB.
Board member of Ideella Föreningen Prima Gruppen and alternate Board member of Sigrid Therapeutics AB.

Previous assignments (past five years):
Board member of Nordstjernan AB and Brofågel Support AB.

Holding in the company: 25,334,270 shares through MGA Holding AB.

Peter Thelin

Board member since 2011.

Born: 1956.

Education: Graduate, Stockholm School of Economics.

Other current assignments:
President of Carve Capital AB.
Board member of Brummer & Partners AB, ELC Fastigheter AB, East Bay AB, Sjunda Gård AB, Carve Intressenter AB, Sjuenda Holding AB, Rebellion Oil AB and Järna Mejeri AB.

Previous assignments (past five years):
Chairman of Jemtia AB, SRE Högfors AB and Acrux Entreprenad AB. Board member of CPB Energy AB, Valot Invest Sweden AB, Henvålens Fjällgård AB and Psoriasis + Creams Sweden AB.

Holding in the company: 1,900,000 shares (privately and via companies).

Magnhild Sandberg-Wollheim

Board member since 2007.

Born: 1937.

Education: Associate Professor of Neurology
and Consultant at the neurological clinic at Skåne University Hospital.

Other current assignments:
Board member of MS-konsulten AB, Parkinson Research Foundation, European MS Foundation and the foundation Insamlingsstiftelsen för MS-forskning.

Previous assignments (past five years): None.

Holding in the company: None.

Peter Sjöstrand

Board member since 2000.

Born: 1946.

Education: M.Sc. Stockholm School of Economics. Medical Degree, Karolinska Institute in Stockholm.

Other current assignments:
Chairman of Byggnads AB S:t Erik and the Oscar Hirsch's Memory Foundation. Board member of Ringens Varv AB, Peter Sjöstrand AB, SAMF Sweden AB and assignments in the Acturum Group. Member of the Strategic Council, School of Technology and Health (Royal Institute of Technology) and Vatera Holding Advisory Board.

Previous assignments (past five years):
Chairman of Prebona AB.
Board member of Calmark Sweden AB, Karolinska Development AB, Acturum Life Science AB and Slutsteget nr 26 AB.

Holding in the company: 25,846 shares.

Auditors

KPMG AB with **Linda Bengtsson** as auditor-in-charge.
Born: 1974.

Company auditor at Active Biotech AB since 2016.

Authorized Public Accountant KPMG.

Executive management

Tomas Leanderson
President and CEO. Employed by the company since 1999. Tomas Leanderson has held a number of academic research positions both in Sweden and internationally.

Born: 1956.

Education: Doctor of Medical Science, Umeå University.

Other current assignments: Professor of Immunology at Lund University.

Previous assignments (past five years): Board member of ProNoxis AB.

Holding in the company: 111,170 shares.

Hans Kolam
Chief Financial Officer. Employed by the company since 2000. Hans Kolam has more than 35 years of experience in the pharmaceuticals industry, having held various positions at Pharmacia.

Born: 1951

Education: M.Sc. Economics, Uppsala University.

Other current assignments: None.

Previous assignments (past five years): Alternate Board member of MK Flyg AB until 2014 (wound up in December 2015).

Holding in the company: 45,641 shares (of which 2,464 shares via related parties).

Helén Tuvesson
Chief Scientific Officer. Employed by the company since 1998. Helén Tuvesson has worked in the pharmaceutical industry for almost 20 years and held various positions at Pharmacia.

Born: 1962.

Education: Doctor of Cellular and Molecular Biology, University of Lund.

Other current assignments: None.

Previous assignments (past five years): None.

Holding in the company: 7,928 shares.

Glossary

ANYARA: Active Biotech's candidate drug against renal cell cancer. Only out-licensing activities are conducted.

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.

CHMP: Committee for Medicinal Products for Human Use, a scientific committee within the European Medicines Agency (EMA).

CRO: Contract Research Organisation, specialized in the implementation of clinical trials.

EMA: European Medicines Agency.

EDSS: Expanded Disability Status Scale, a rating scale for neurological disability progression.

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

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

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

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

HR: Hazard Ratio, a measurement of treatment efficacy. Values below 1 indicate a benefit for patients treated with an active substance.

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

Inflammation: The body's response to localized damage.

Ipsen: Ipsen SA, Active Biotech's former partner for tasquinimod.

Clinical studies: Studies of how a pharmaceutical affects humans.

Laquinimod: Active Biotech's candidate drug for treatment of neurodegenerative diseases, such as various forms of MS and Huntington's disease.

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

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

MS: Multiple sclerosis, a chronic autoimmune neurodegenerative disease.

Multiple myeloma: An incurable cancer of blood cells.

NeoTX: Teva Pharmaceutical Industries Ltd, Active Biotech's partner for ANYARA.

Neurodegenerative: Degenerative for the nervous system.

OS: Overall survival; prolonged OS.

Paquinimod: Active Biotech's candidate drug in the 57-57 project against systemic sclerosis. Active Biotech will only conduct out-licensing activities in the future.

Patent: Exclusive rights to a discovery or invention.

PBC: Primary biliary cirrhosis, a chronic liver disease.

PFS: Progression Free Survival.

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

PPMS: Primary progressive MS.

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

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

Quinoline: The compound class to which laquinimod and tasquinimod belong.

RRMS: Relapsing remitting multiple sclerosis.

SAP: Statistical Analysis Plan.

SILC: S100A9 Inhibition by Low molecular weight Compounds. Active Biotech's preclinical oncology project, previously known as the ISI project.

SSc: Systemic sclerosis; a chronic autoimmune disease.

SPMS: Secondary progressive MS.

Tasquinimod: Active Biotech's candidate drug developed for multiple myeloma.

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

Business concept, objectives and business strategy

Business concept

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

Goal

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

Business strategy

The key components of the company's business strategy are to:

- Achieve the greatest possible growth in value in each project and seek collaboration with strong partners for each project at the appropriate stage.
  Active Biotech has secured development and commercialization partners for two of its projects; Teva for laquinimod for the treatment of multiple sclerosis (MS), and NeoTX for ANYARA. Active Biotech plans to selectively choose partners for the remaining projects at the optimal point in time for each project.
- Progress the clinical development of the company's selected compounds together with partners with relevant expertise.

Active Biotech will also:

- Generate revenue through out-licensing and royalties.
- Limit costs through the utilization of partnership agreement and external expertise.
- Protect its expertise through strong patents and an active patent strategy.
- Create financial sustainability through well-established partnerships and strong and active owners.

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