

**Active Biotech
Year-end report
January – December 2004**

- **All planned milestones were achieved in 2004**
- **Result in accordance with forecast**
- **Net sales: SEK 69.7 M (0.3)**
- **Loss after net financial items: SEK 174.2 M (loss: 307.0)**
- **Earnings per share for the period: SEK -5.16 (loss: 11.80)**
- **Loss after tax: SEK 174.2 M (loss: 307.6)**

Comments by President & CEO Sven Andréasson:

“Active Biotech achieved all its planned milestones in 2004. At the same time, an extensive organizational change was implemented, focusing on clinical projects and a significant reduction of the company’s future costs. The milestones achieved in 2004 are summarized below, together with a presentation of our planned milestones for the next 18 months.”

All planned milestones were achieved in 2004:

Laquinimod	<ul style="list-style-type: none"> – partnership agreement signed with Teva – technology transfer to Teva completed – phase II safety study in MS patients started
ANYARA (TTS)	<ul style="list-style-type: none"> – positive Phase II data reported for pancreatic and renal cancer – Phase I study for ANYARA in non-small cell lung cancer proceeded according to plan – production collaboration agreement signed
TASQ	<ul style="list-style-type: none"> – positive Phase I data in healthy volunteers reported – Phase I study in prostate cancer patients started
57-57	<ul style="list-style-type: none"> – Phase I program in healthy volunteers started
RhuDex	<ul style="list-style-type: none"> – candidate drug chosen by Avidex for CD80 substance against rheumatoid arthritis (RA)

Planned milestones for the next 18 months:

- | | |
|--------------|--|
| Laquinimod | <ul style="list-style-type: none"> – report additional Phase II data in MS patients, including higher doses – start Phase III program for MS indication in Europe – USA – report results of Phase II safety study in MS patients with high dose |
| ANYARA (TTS) | <ul style="list-style-type: none"> – report results of Phase I study in non-small cell lung cancer – start Phase I study for combination therapy in non-small cell lung cancer – report results of Phase I study for combination therapy in non-small cell lung cancer – start Phase II/III study for non-small cell lung cancer |
| TASQ | <ul style="list-style-type: none"> – report Phase I study in prostate cancer – start Phase II/III program in prostate cancer patients |
| 57-57 | <ul style="list-style-type: none"> – report results of Phase I study with healthy volunteers – start Phase I study in lupus patients – report results of Phase I study in lupus patients |
| RhuDex | <ul style="list-style-type: none"> – start Phase I study in healthy volunteers – report results from Phase I study in healthy volunteers – start Phase II study in RA patients |

Status of the five key projects:

Laquinimod – partnership with Teva

In June 2004, Active Biotech signed an agreement with Teva Pharmaceutical Industries Ltd. for the development and commercialization of laquinimod; an immunomodulatory agent carrying the potential to develop a disease-modifying drug for the oral treatment of multiple sclerosis (MS).

Teva is implementing the clinical development of laquinimod with a strategy that maximizes the probability of success and brings the product onto the market in the shortest time possible. Teva is conducting Phase II studies with higher dosage levels to facilitate the choice of optimal dose for pivotal Phase III studies. With this strategy and an ambitious registration plan, it is estimated that a market launch of laquinimod will be possible in 2009 and that the drug has the potential to become the first orally administered MS product to reach the market.

Since MS patients must be on medication throughout their lifetime, a simple oral tablet form means a substantial advantage. We believe that out of the few oral MS drugs currently being developed, Active Biotech's laquinimod is one of the furthest advanced.

Other oral MS projects under development have not yet published complete Phase II data. These projects mainly comprise immunosuppressive substances originally intended for other indications.

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

ANYARA (TTS)

The Phase I dose-escalation study of TTS CD3, now named ANYARA, is progressing according to plan. It is planned that Phase II/III studies are planned to start in 2006.

In parallel with the ongoing Phase I studies, a clinical study of the safety of ANYARA in combination with established Cytostatic drugs for treatment of non-small cell lung cancer will be initiated.

In December 2004, the Food and Drug Administration (FDA) granted "Fast Track" status for ANYARA for the treatment of non-small cell lung cancer.

Also in December 2004, the US Patent and Trademark Office issued a "Notice of Allowance" providing information about a patent approval for ANYARA.

Non-small cell lung cancer is one of the most common types of cancer. It is also the most fatal form of cancer. In 2000, more than one million people were afflicted by non-small cell lung cancer. In the same year, nearly 900,000 people died of the disease. No adequate treatment methods are available. Surgery is the only form of treatment that can cure non-small cell lung cancer, although it is only effective for tumors that have not yet formed metastases. Cytostatic drugs such as cisplatin, carboplatin, vinorelbine, paclitaxel, docetaxel and gemcitabine are used with limited success for treating advanced disease.

Patient studies started for TASQ prostate cancer project

A Phase I dose-escalation study was started in December 2004 with the aim of studying the safety of TASQ when the substance is administered in escalating doses to prostate cancer patients. The study was commenced as a four-week treatment period that can be extended up to one year to enable documentation of long-term tolerance and safety. The study also includes monitoring various effect parameters.

The study is being conducted at the urological clinics at Sahlgrenska University Hospital in Gothenburg and at the University Hospitals in Lund and Malmö.

The purpose of the company's TASQ project is to develop a pharmaceutical product that can be administered orally for the treatment of prostate cancer. Active Biotech is collaborating on this project with Professor John T. Isaacs of Johns Hopkins University in Baltimore, Maryland, in the US.

Prostate cancer is the most common form of cancer among men and accounts for almost one third of all cancers. Each year, more than half a million people are diagnosed with the disease, which principally affects men in their 50s and older. Prostate cancer has varying degrees of severity. Despite a relatively good prognosis, prostate cancer is the second most common cause of death among men.

Clinical studies started for the 57-57 project for SLE

In early November 2004, Active Biotech initiated a Phase I dose-escalation study for the 57-57 project for the treatment of systemic lupus erythematosus (SLE). The study is being conducted to study the safety of 57-57 in escalating doses in parallel groups of healthy volunteers. The study is being conducted at Karolinska University Hospital in Stockholm and is expected to be concluded during the first half of 2005. The study is progressing according to plan.

The next step in the clinical development of 57-57 will be a Phase I clinical trial of how the substance is tolerated in SLE patients. This trial is expected to start before the end of the year.

SLE – Systemic Lupus Erythematosus – is a disease of the connective tissues that can cause inflammation and damage to the connective tissue in many different organs. The disease progresses in “flare-ups” interspersed by relatively symptom-free periods, and primarily affects women of childbearing age. Progress and symptoms of the disease vary widely, depending on the organs affected. Without treatment, SLE can be life-threatening. According to the Lupus Foundation of America (www.lupus.com), an estimated 1.5 million people in the US have some form of lupus.

RhuDex®

UK company Avidex Ltd. licensed the CD80 project from Active Biotech in April 2002. Avidex has been highly successful in the preclinical development process. During 2004, a candidate drug named RhuDex was selected and this will be developed against rheumatoid arthritis (RA). RhuDex has an entirely different mode of action compared to the currently controversial Cox-2 inhibitors, such as Vioxx (rofecoxib) and Celebra (celecoxib), also used in the treatment of RA.

Phase I studies are expected to start during the spring of 2005.

In April 2002, Active Biotech signed a licensing agreement with Avidex Ltd. of the UK regarding Active Biotech’s patented CD80 antagonists. The agreement grants Avidex the exclusive right to further develop the CD80 antagonists and to market products containing these substances. For Active Biotech, the agreement entailed an initial payment in 2002 and eligibility for milestone payments totaling up to GBP 5.8 M and royalties on future sales.

Financial information

Comments on the Group’s results for the period January – December 2004

Consolidated net sales for the period amounted to SEK 69.7 M (0.3), of which SEK 30.3 M pertains to the milestone payment from Chiron Corp. and SEK 37.7 M to an initial payment from the partnership agreement with Teva Pharmaceutical Industries Ltd. Other sales totaling SEK 1.7 M (0.3) are related to pharmaceutical substances, clinical materials and research services.

Research and administration costs declined by SEK 66.2 M, from SEK 336.8 M in 2003 to SEK 270.6 M in 2004. The reduction in costs is attributable to lower costs for the clinical development program in 2004 compared with the extensive clinical Phase II trials for laquinimod and TTS CD2 that were concluded during the latter part of 2003. Earnings for 2004 were charged with costs relating to the ongoing Phase I study for ANYARA against lung cancer in the US and Norway, and costs relating to Phase I studies for the TASQ prostate cancer project and the 57-57 project against SLE. Costs for 2004 also include a provision of SEK 5.7 M for remaining costs pertaining to staff reductions. Costs in 2003 included SEK 19.7 M in compensation for the lack of guarantees in connection with the divestment of the Peltor AB subsidiary in 1996.

The operating loss decreased by SEK 135.5 M to a loss of SEK 200.9 M (loss: 336.4) as a result of higher revenues and lower costs.

Net financial income for the period amounted to SEK 28.8 M (32.0). The lower financial net is attributable to dividend payments of SEK 14.7 M (26.0), capital gains of SEK 12.2 M (2.6) from portfolio management, SEK 2.9 M (3.7) in interest income, and SEK 1.0 M (0.4) in exchange losses.

Participation in the results of the associated UK company Isogenica Ltd amounted to a loss of SEK 2.1 M (loss: 2.5). The company signed a number of license agreements during the period.

The Group's earnings after financial items improved by SEK 132.8 M to a loss of SEK 174.2 M (loss: 307.9), which is in line with the previously issued forecast.

Comments on the Group's results for the period October – December 2004

Fourth-quarter sales rose from SEK 0.2 M in 2003 to SEK 1.5 M in 2004, mainly through the sale of active pharmaceutical substances and clinical material to Teva during the fourth quarter of 2004.

Administration and research costs amounted to SEK 64.4 M (81.5). The significant cost reduction is explained by the development in the clinical project portfolio with lower clinical costs.

The operating loss decreased to SEK 62.9 M (loss: 81.3) as a result of higher revenues and lower costs.

The net financial expense for the period was SEK 0.2 M (income: 4.4). The change is mostly due to exchange losses and lower capital gains from portfolio management.

Earnings after financial items amounted to a loss of SEK 63.5 M (loss: 77.2).

Liquidity and financial status

Consolidated cash flow for the fourth quarter was positive in an amount of SEK 86.3 M (neg: 60.5). Cash flow for the full year was negative in an amount of SEK 12.8 M (neg: 101.4).

Cash flow from operating activities was negative in an amount of SEK 53.7 M (neg: 59.5) for the fourth quarter and a negative SEK 149.6 M (neg: 288.8) for the full year. The significant improvement for the full year is attributable to the positive earnings trend and the change in working capital.

Investments in tangible fixed assets – primarily laboratory equipment – amounted to SEK 1.8 M (5.6).

Cash flow from financing activities in the fourth quarter amounted to SEK 140.1 M (neg: 1.0) and to SEK 138.6 M (188.5) for the full year. The issue of a convertible debenture loan in the fourth quarter contributed SEK 140.9 M after issue expenses. During the second quarter of 2003, a preferential rights issue provided the company with funds of SEK 216.7 M.

At year-end, the Group had no external debts, apart from the convertible debenture loan and a liability of SEK 6.5 M (6.7) to leasing companies.

The book value of the Group's current investments and liquid assets was SEK 214.8.5 M at year-end, compared with SEK 227.6 M at 31 December 2003. Available liquidity per share amounted to SEK 6.23, compared with SEK 6.66 at year-end 2003.

Parent company Active Biotech AB – Corporate reg. no. 556223-9227

The operations of the parent company, Active Biotech AB, comprise Groupwide administrative functions. Parent company net sales for the period amounted to SEK 72.8 M (3.5), of which SEK 30.3 M pertained to the additional purchase sum from Chiron Corp. and SEK 37.7 M to the first payment from Teva Pharmaceutical Industries Ltd.

Operating expenses during the period amounted to SEK 30.8 M (52.6). The figure for 2003 includes an expense item arising from a lack of guarantees in connection with the sale of the Peltor AB subsidiary in 1996. Net financial income for the period amounted to SEK 100.0 M (29.4). The change between the years is attributable to dividend payments from subsidiaries. The parent company's gross investments in fixed assets during the period amounted to SEK 0.0 M (0.0). Liquid funds in the parent company at year-end amounted to SEK 212.9 M, compared with SEK 217.0 M on 1 January 2004.

Share capital

Consolidated shareholders' equity amounted to SEK 162.3 M at year-end, compared with SEK 289.6 M at the end of the preceding year. The change is due to the loss for the period.

The total number of shares outstanding on 31 December 2004 was 33,738,876, which was unchanged from the end of 2003. In addition, the company has issued 3,748,764 convertible debentures. Each debenture can be converted into one share at a price of SEK 40 through 15 June 2009. At full conversion, the number of shares in Active Biotech will increase by 10 percent, or 3,748,764 shares, to a total of 37,478,640 shares.

At 31 December 2004, the Group had an equity/assets ratio of 51.9 percent, compared with 83.8 percent at year-end 2003. The corresponding figures for the parent company, Active Biotech AB, were 30.8 percent and 28.5 percent, respectively.

Organization

At year-end 2004, the Group had 104 (176) employees. In February 2004, the company decided to focus its activities on projects in the clinical phase, resulting in significant staff cutbacks. The number of employees is gradually reduced as employment contracts expire. When fully implemented, the new organization will comprise about 90 employees.

Outlook

The company's implemented focus on clinical projects combined with concluded partnership agreements and the continued developments in the clinical portfolio will lead to further cost

reductions in 2005. We reiterate our previous guidance of a reduction in operating expenses of about SEK 100 M in 2005 compared with the full year 2003.

No earnings forecast has been issued for full-year 2005 due to uncertainty regarding dates for signing partnership agreements and receiving milestone payments from existing agreements.

With regard to liquidity, the partial or full exercise of the authority granted by the Annual General Meeting to issue six million shares, combined with revenues from existing and planned partnership agreements, will in accordance with current plans finance operations until 2009.

Dividends 2004

The Board of Directors proposes that no dividend be paid for the 2004 financial year.

Accounting and valuation principles

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

Due to the company's structure and considerable research and development costs, the company is not currently required to pay income taxes. The parent company's accumulated tax loss carryforwards at the end of 2004 amounted to SEK 948 M, including the currently unconfirmed tax assessment for the fiscal year 2004. Deferred tax assets pertaining to loss carryforwards are reported to the extent that it is probable that the carryforwards can be settled against surplus in the near future.

Transition to IFRS in 2005

In accordance with the IAS directive adopted by the EU in 2002, listed companies throughout the Union shall apply the International Financial Accounting Standards (IFRS) in their consolidated accounts effective 2005. The IFRS 1 standard deals with the transition to IFRS for companies applying the regulations for the first time. The standard stipulates that on transitioning to IFRS from a national standard, a company shall present at least one year of comparative data in accordance with IFRS. Furthermore, the company shall explain how the transition to IFRS from the previous accounting principles has affected financial position, earnings and cash flow. According to IFRS 1, this information shall be presented in connection with the first interim report for the 2005 fiscal year, at the latest.

In November 2004, the Stockholm Stock Exchange issued a recommendation to listed companies to present information regarding the most essential effects of the transition to IFRS already in their year-end reports for 2004. Consequently, this information is presented below.

Accounting principles – significant differences

On the basis of IAS/IFRS, now becoming effective, and proposed changes to these, the company has identified a number of areas that will affect the consolidated accounts and consequently financial key figures compared with current accounting principles. The most significant areas involve the property sale and leaseback agreement, short-term investments and personnel option programs.

1. Tangible fixed assets

The company's sale and leaseback agreement for the property in which operations are conducted, and which has been reported as an operational leasing agreement, will, in accordance with IAS 17, be reported as a financial leasing agreement. This means that the property will be reported as an asset in the Group's balance sheets and amortized according to plan to an assessed residual value.

The undertaking to pay future leasing fees to the provider of the lease will be reported as a short- and long-term liability, with the property reported as a pledged asset. Future lease payments will be reported as interest expenses and amortization. The capital gain reported in 1998, when the sale and leaseback agreement was entered, will be distributed across the lease period.

2. Short-term investments

In accordance with IAS 39, the Group's short-term investments will be assessed and reported at their net realizable value after January 1, 2005. The change in accounting principles will have no effect on earnings or the balance sheet for 2004.

3. Personnel option programs

In December 2003, Active Biotech issued a personnel option program comprising all personnel whereby employees were offered the opportunity to subscribe for new shares in the company. The personnel option program will be accounted for in accordance with IFRS 2. The conditions for the exercise of the options require that the employee remain with the company for a certain amount of time. The net realizable value of the options is calculated on the issue of the shares and will be reported as a personnel expense distributed across the period of service. Transactions regulated by shareholders' equity instruments will be reported as an increase in shareholders' equity. Consequently, an option program for employees whereby options are exchanged for company shares will be charged against earnings for the period but will have no effect on total shareholders' equity.

Estimated effects on the consolidated income statement

The Group's earnings for 2004 would have improved by SEK 2.3 M if IFRS had been implemented at 1 January 2004. The reporting of the sale and leaseback agreement, as a financial lease provides a positive effect on earnings of SEK 3.9 M and the personnel option program a negative effect on earnings of SEK 1.6 M.

Estimated effects on the consolidated balance sheet

	31 Dec. 2004	Adjustment	IFRS 31 Dec. 2004
Total fixed assets	82.5	274.0	356.5
Total current assets	230.4	0.0	230.4
Total assets	312.9	274.0	586.9
Total shareholders' equity	162.3	-58.2	104.1
Total long-term liabilities	98.5	295.6	394.1
Total current liabilities	52.1	36.6	88.7
Total shareholders' equity and liabilities	312.9	274.0	586.9

The effects of the transition to IFRS are preliminary and based on currently applicable standards, which could be changed prior to December 31, 2005.

Active Biotech – Group

Income statement, condensed SEK M	Oct. – Dec.		Jan. – Dec.	
	2004	2003	2004	2003
Net sales	1.5	0.2	69.7	0.3
Administrative expenses	-6.6	-8.7	-30.9	-52.6
Research and development costs	-57.8	-72.8	-239.7	-284.2
Operating loss	-62.9	-81.3	-200.9	-336.4
Loss from shares in associated companies	-0.4	-0.3	-2.1	-2.5
Net financial items	-0.2	4.4	28.8	32.0
Loss after net financial items	-63.5	-77.2	-174.2	-307.0
Tax on profit for the year	–	-0.6	–	-0.6
Net loss for the year	-63.5	-77.8	-174.2	-307.6
Depreciation/amortization included in an amount of	2.9	3.6	13.1	15.5
Investments in fixed assets	0.5	0.4	1.8	5.6
Loss per share before dilution (SEK)	-1.88	-2.31	-5.16	-11.80
Weighted number of common shares before dilution (000s)	33,739	33,739	33,739	26,062
Weighted number of common shares after dilution (000s)	33,739	33,739	33,739	26,062
Number of shares at close of period (000s)	33,739	33,739	33,739	33,739
Number of shares at close of period, including warrants (000s)	35,069	33,739	35,069	35,069
Balance sheet, condensed			31 Dec.	
SEK M			2004	2003
Tangible fixed assets			39.1	50.3
Financial assets			43.4	45.1
Total fixed assets			82.5	95.4
Current receivables			15.6	22.5
Short-term investments and liquid funds			214.8	227.6
Total current assets			230.4	250.0
Total assets			312.9	345.4
Shareholders' equity			162.3	289.6
Long-term liabilities			98.5	4.9
Current liabilities			52.1	50.9
Total liabilities and shareholders' equity			312.9	345.4
Changes in shareholders' equity, condensed				
Balance at start of period			289.6	380.3
New share issue			–	216.7
Convertible issue			46.9	–
Translation differences			0.1	0.2
Net loss for the year			-174.2	-307.6
Balance at year-end			162.3	289.6

Cash-flow statement, condensed SEK M	Jan. – Dec.	
	2004	2003
Loss after financial items	-174.2	-307.0
Adjustments for items not included in cash flow, etc.	17.9	18.9
Tax paid	0.0	0.0
Cash flow from operating activities before changes in working capital	-156.3	-288.1
Changes in working capital	6.7	-0.7
Cash flow from operating activities	-149.6	-288.8
Net investments in fixed assets	-1.8	-1.1
Cash flow from investing activities	-1.8	-1.1
New share issue	–	216.7
Convertible issue	140.9	–
Borrowings/repayment of debt	-2.2	-28.2
Cash flow from financing activities	138.6	188.5
Cash flow for the period	-12.8	-101.4
Liquid funds, beginning of period	227.6	329.1
Exchange-rate differences in liquid funds	0.0	-0.1
Liquid funds, end of period	214.8	227.6
	31 Dec.	
Key figures	2004	2003
Shareholders' equity, SEK M	162.3	289.6
Shareholders' equity per share, SEK	4.81	8.58
Available liquid funds, SEK M	210.1	224.6
Available liquid funds per share, SEK	6.23	6.66
Equity/assets ratio, parent company, %	30.8%	28.5%
Equity/assets ratio, Group, %	51.9%	83.8%
Average number of annual employees	151	179

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

Legal disclaimer

This financial report includes statements that are forward looking and actual results may differ materially from those stated. In addition to the factors discussed, among other factors that may affect results are developments within research programs, including clinical trials, the impact of competing research programs, the effect of economic conditions, the effectiveness of the Company's intellectual property rights and preclusions of technological development, exchange rate and interest rate fluctuations, and political risks.

Financial calendar 2005

Interim report January – March:	May 12, 2005
Interim report April – June:	August 11, 2005
Interim report July – September:	November 2, 2005
Year-end report 2005:	February 16, 2006

Reports will be available from these dates at www.activebiotech.com

Annual General Meeting

The Annual General Meeting will be held on April 21, 2005 at 5 p.m. at Edison Park, Emdalavägen 18, Lund, Sweden. A more detailed invitation to attend the Meeting will be issued prior to this date.

Lund, 17 February 2005
Active Biotech AB

Sven Andréasson
President & CEO

This report is unaudited.

***Active Biotech AB** is a biotechnology company focusing on research in and development of pharmaceuticals. Active Biotech has a strong R&D portfolio and pipeline products with focus primarily on autoimmune/inflammatory diseases and cancer. Most advanced projects include orally administered small molecules (laquinimod) with unique immunomodulatory properties that can be used to treat autoimmune and inflammatory diseases, as well as a novel concept for use in cancer immunotherapy (ANYARA (TTS)).*

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