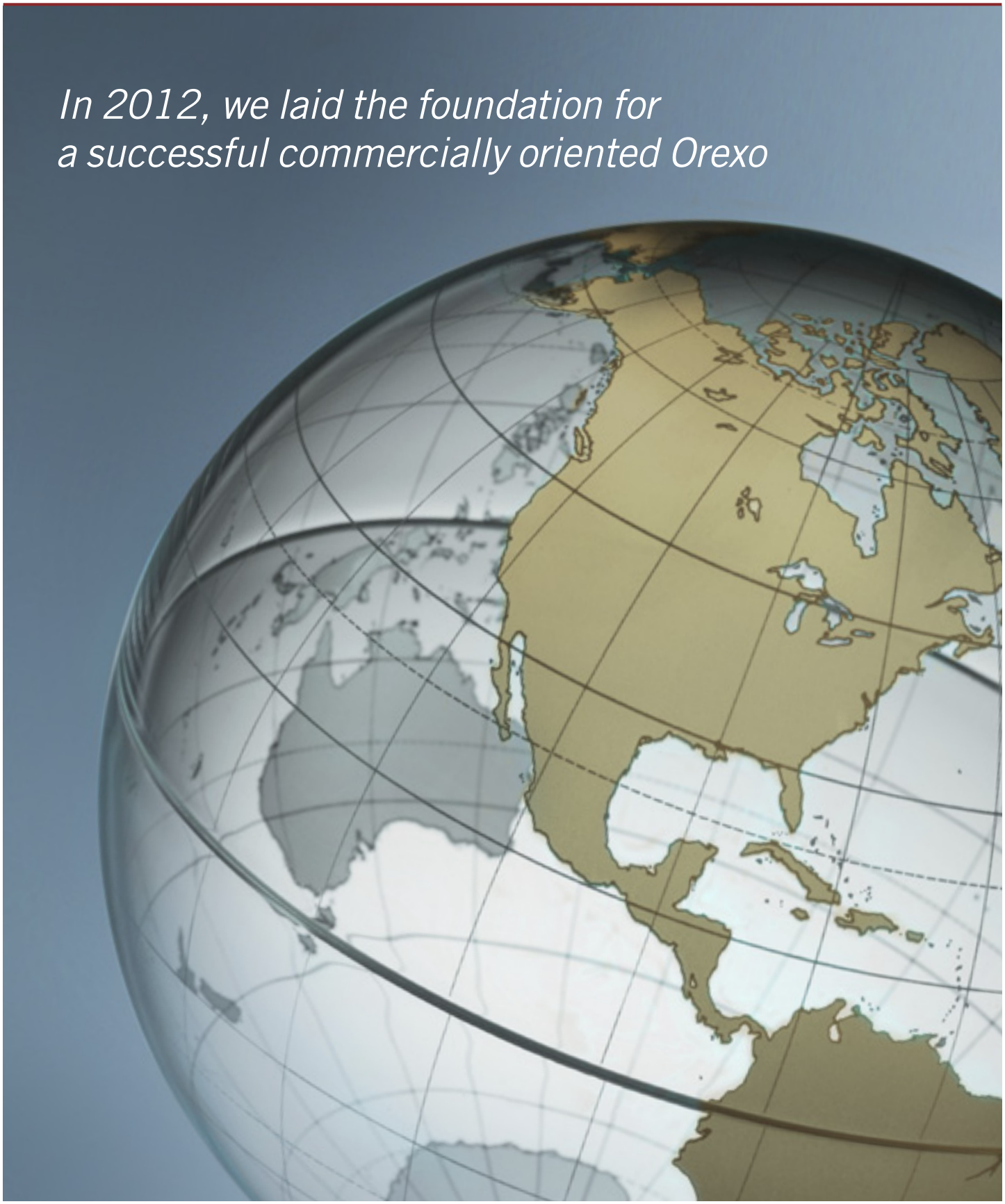
orexo

Annual Report 2012

In 2012, we laid the foundation for a successful commercially oriented Orexo



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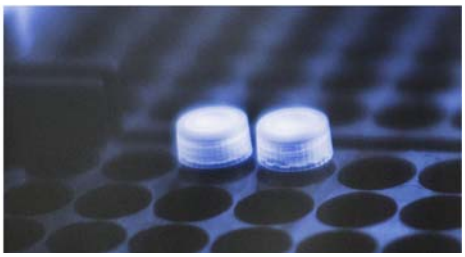
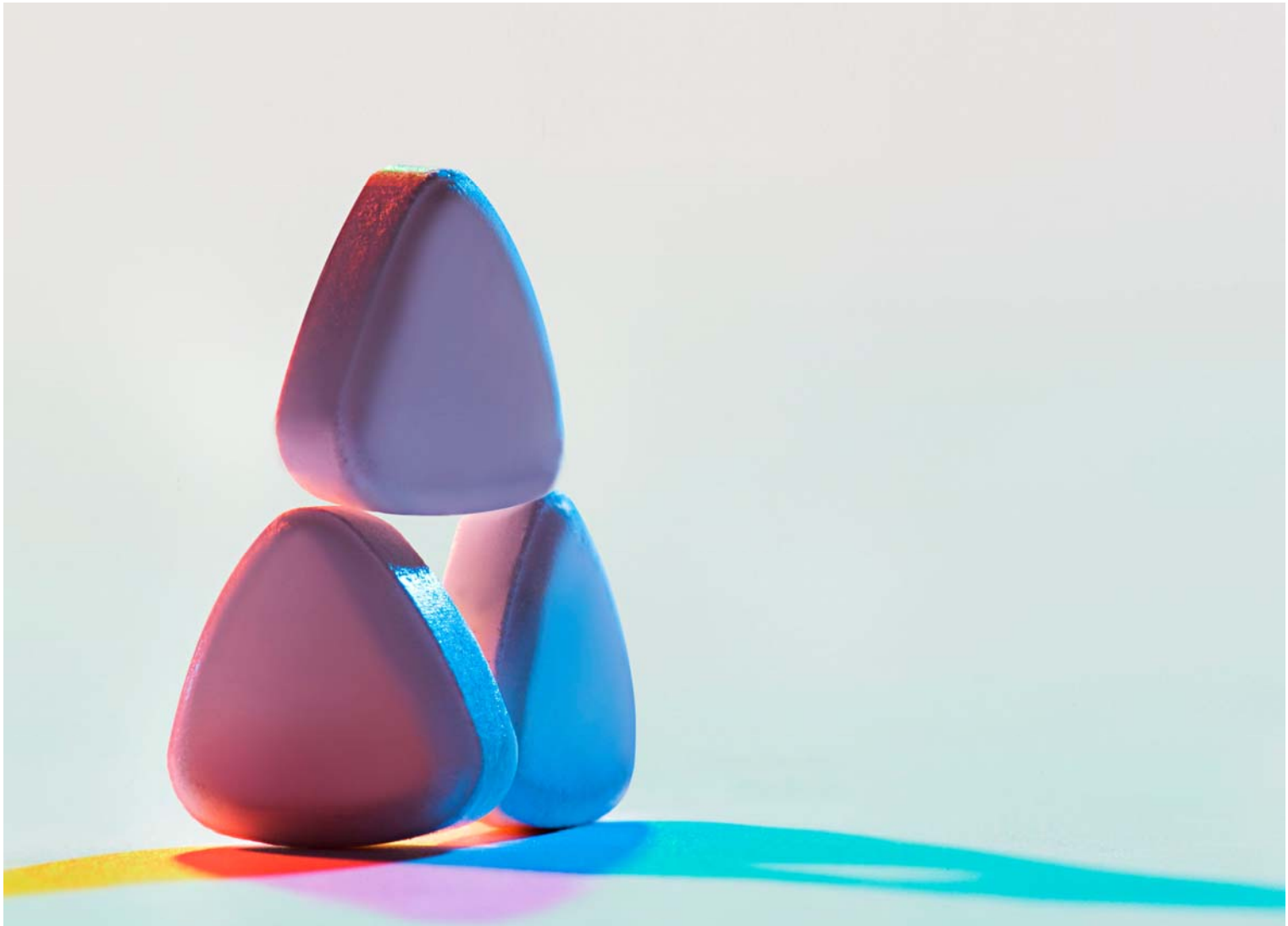




Orexo – a developing specialty pharma company

Orexo develops new and improved products by combining well-documented substances with Orexo's patented drug delivery technologies. This means that products can be developed at a lower risk and in a shorter period of time than is the case in the traditional development of new pharmaceutical substances.

The development portfolio consists of proprietary programs and clinical collaboration projects licensed to partners. Orexo has previously successfully developed commercial products that today are licensed to other companies.

The company's present commercial focus is the treatment of opioid dependence.

The strategy is to develop Orexo's own programs all the way to marketing and sales under company management. Orexo thereby aims to become a fully integrated specialty pharma company.

The Year in Brief

KEY EVENTS DURING THE YEAR

Q1

- Business operations were focused, leading to reduced costs of approximately MSEK 30 on an annual basis.
- The collaboration with Janssen Pharmaceuticals, Inc. regarding OX-CLI and OX-ESI was terminated and the projects were discontinued.

Q2

- Three new Board members were elected.
- The license agreement with ProStrakan was renegotiated and Orexo obtained the rights to Abstral® in the USA and received MSEK 610 in fixed royalty payments.
- Edluar® was approved for registration in Europe.
- Positive results from pivotal clinical studies with Zubsolv were reported.

Q3

- A New Drug Application for Zubsolv™ was submitted to the FDA.
- Shares to a total value of MSEK 53 were repurchased.

Q4

- Guggenheim Securities LLC was hired as a financial advisor to evaluate different commercial partner alternatives for Zubsolv and Abstral in the USA.
- The New Drug Application for Zubsolv was accepted for review by the FDA and the planned target date for approval was set as July 6, 2013 (PDUFA date).
- A dose-finding phase II study for OX51 was initiated.
- Kyowa Hakko Kirin submitted a New Drug Application for KW-2246 (Abstral) in Japan.

Key figures

	2012	2011	2010	2009	2008
Net revenues, MSEK	**326.3**	**199.6**	210.5	236.1	233.3
Growth, %	**63.5**	**–5.2**	–10.8	1.2	204.0
Net earnings for the year, MSEK	**–85.9**	**–392.0**	–89.2	–98.1	–103.1
Earnings per share, before dilution, SEK	**–2.92**	**–14.43**	–3.8	–4.3	–4.8
Cash and cash equivalents, including short-term investments, MSEK	**228.1**	**246.9**	135.8	87.4	188.2
Shareholders' equity, MSEK	**191.1**	**311.1**	468.2	548.7	569.8
Average number of employees	**111**	**110**	105	124	123
Number of employees at year-end	**97**	**118**	105	108	128

CEO's Message

Our activities have laid the foundation for a successful and commercially oriented Orexo, which will become a leading player in the treatment of opioid dependence in the USA.

Nikolaj Sørensen, President and CEO

In 2012 we made considerable progress in changing the company towards a fully integrated specialty pharma company. We increased productivity in our research and development work and focused our resources on the development of our product for opioid dependence, Zubsolv™. The renegotiation of the agreement on Abstral® with ProStrakan resulted in fixed royalty payments of MSEK 610. On March 18, 2013, Orexo announced that it sold Abstral® in the United States to Galena Biopharma, Inc. This transaction gave us approximately MSEK 98 in addition to milestone payments and royalty. Together this further strengthens the companys financial platform ahead of the forthcoming launch of Zubsolv in the USA 2013. We are now working at full steam to evaluate the best strategic partnership structures for a launch of Zubsolv. I am very confident that our activities during 2012 have laid the foundation for a successful and commercially oriented Orexo, which will become a leading player in the treatment of opioid dependence in the USA.

Zubsolv will be the first improved branded product in the opioid dependence market in the USA. There will be both patients and doctors looking for alternatives who will quickly change to a new better product. Our single most important task during the year has therefore been the rapid development of Zubsolv, thereby allowing an early submission of the New Drug Application to the U.S. Food and Drug Administration, FDA. We managed to do this. Our application was submitted in September 2012, approximately five months earlier than estimated. We anticipate approval from the FDA at the beginning of July 2013 and commercial launch in September 2013. A pre-condition for the rapid development and swift submission of the New Drug Application has been the positive study results and the fact that it was possible to use product stability data from our Swedish production site, which we are now preparing for commercial manufacturing of Zubsolv, in the registration. Furthermore, we have also set up production at a contract manufacturer in the USA following a very successful transfer of the production competence and processes. We will begin manufacturing of Zubsolv during spring 2013 and we have secured that our production capacity can handle a rapid increase of the demand for the product.

The total market value for the treatment of opioid dependence, using the same active ingredients as in Zubsolv, has developed very favorably during the latter part of 2012. It has grown to almost SEK 10 billion and has continued to display strong volume growth

of almost 16 percent when measured in number of prescriptions. Furthermore, the existing competitor has announced the withdrawal of the only product that can be subjected to generic substitution in pharmacies, and this discontinuation has reduced the impact of generic products.

Orexo carried out a successful comparative preference study between Zubsolv and Suboxone® Film, the only buprenorphine/naloxone product for the treatment of opioid dependence on the US market today. The study demonstrated that 9 out of 10 participants would choose Zubsolv rather than Suboxone Film for daily treatment. This result strengthens our belief in Zubsolv's potential. To increase Zubsolv's competitiveness and secure its full potential, we have initiated development work to further differentiate the product from existing treatments. During spring 2013, clinical studies will start to investigate the use of Zubsolv upon the initiation of treatment and to demonstrate that existing treatments can be effectively replaced by Zubsolv. In parallel with this we are creating a broader product line for Zubsolv by developing new strengths and new flavors of the tablet to better match patients' needs. This latter point is important as for many patients taste is of great importance in deciding how likely it is that they will complete the treatment, and thus how good an effect it will have. With a clearly differentiated product and continuing successful development work, our aim is to gain a leading position in the market for opioid dependence in the USA and later also in other markets outside the USA.

Abstral has continued its very positive development in Europe and the product is taking further market share from its competitors. During 2012 sales in the EU amounted to MSEK 353, an increase of 40 percent compared with the previous year. Provided that the sales development continues at a similar pace in 2013, Orexo anticipates receiving royalties from sales in Europe already during 2013, over and above the MSEK 610 in fixed royalty payment that ProStrakan is paying us over a period of three years for the European rights. Our market surveys during the latter part of 2012 have clearly shown that there is a need and thereby considerable potential for Abstral in the USA.

A very exciting year lies ahead of us. As the new CEO of Orexo my primary focus will be on securing the successful launch and the additional development of Zubsolv.
The achievements we made in 2012 demonstrate that Orexo has employees with the right collective expertise. This, together with their great commitment, has led us to our successes. I want to thank all employees for these efforts and I am looking forward to fruitful developments in 2013 with great expectation.

March 2013
Uppsala

Nikolaj Sørensen
President and CEO

Board of Directors' Report

The Board of Directors and the President of Orexo AB (publ), corporate registration number 556500-0600, hereby submit the Annual Report and consolidated financial statements for the fiscal year January 1 – December 31, 2012. Orexo's registered office is in Uppsala, Sweden.

Orexo's operations

Orexo is a pharmaceutical company focusing on the development of improved products using its proprietary sublingual tablet technology platform. The Company's current commercial focus is the treatment of opioid dependence. Orexo has previously launched four proprietary products on the market:

- Abstral®, for the treatment of breakthrough pain in cancer patients, is approved for use in both the EU, the USA and Canada. The product is sold in Europe and the USA by the partner ProStrakan Group plc.
- Edluar™, a sublingual tablet containing zolpidem to treat insomnia, is approved for use in the USA and Canada and sold there by Orexo's partner Meda. The product was also approved in the EU during 2012.
- Diabact® UBT and Heliprobe® System, two diagnostic products for the gastric ulcer bacterium Helicobacter Pylori. They are marketed by Orexo's subsidiary Kibion AB.

The company focuses on developing new, improved pharmaceuticals by combining well-known substances with its innovative sublingual tablet technology. This results in new, patentable products that improve patient care or offer a higher level of care not currently available in any other way. This offers the possibility of developing products with a lower level of development risk and in a shorter time compared with the development of new chemical entities.

To reduce the risk in certain development programs, Orexo has a number of licensing agreements and research collaborations with global partners. These are for development programs Novartis, Boehringer Ingelheim and Meda. To commercialize previously developed products, Orexo has licensing agreements with Meda (global), ProStrakan (EU and the rest of the world excl the USA and Japan) and Kyowa Hakko Kirin (Japan).

Orexo's revenues derive from royalties, licensing agreements, research financing as part of licensing agreements and research collaboration, sales of diagnostic products and a share in the sales of the joint venture company together with ProStrakan which was divested during the year.

During the year a number of agreements were entered into with ProStrakan whereby Orexo regains the rights to Abstral in the USA and receives amongst other things fixed royalty payments totaling MSEK 610 for sales of Abstral in the EU.

Organization

During the year Orexo focused the operations on its proprietary development programs, Zubsolv™ and OX51. Other development programs are run entirely by external partners and Orexo does not provide them with any development resources.

Orexo has broad-based competence throughout the development chain, from early preclinical research and development, formulation and clinical development, to registration and pharmaceutical manufacturing. Orexo has a Good Manufacturing Practice (GMP) facility for the manufacture of products for clinical trials and small-scale production. During the year, an up-grade of the GMP facility has been made in order to be able to supply Zubsolv in the anticipation of a commercial launch in the USA in 2013. For commercial supply, manufacture is also transferred to partners or contract manufacturers.

Orexo also collaborates with contract research organizations for certain aspects of drug development, such as clinical studies. Orexo employs a project-led organization, in which skills are combined based on the specific demands of individual projects. Continuous adjustment of the organization is essential for executing the prioritized development projects and to prepare for a more commercial focus of the operations. In 2012 a re-focusing of the business was decided and, as a consequence, a downsizing of the organization was done, primarily adjusting the Company's capabilities to a firm focus on supporting the development and launch of Zubsolv in the USA.

A New Drug Application for Zubsolv was submitted to the FDA in September 2012. It is expected that Zubsolv will be approved in July 2013 and launched in the USA in September the same year. Intensive work is ongoing together with external competencies to prepare for the most value-adding and optimal commercialization strategy in the USA, including the best commercial partnership structure. This means that Orexo's expertise within marketing, distribution etc. will be strengthened. Orexo had at year-end a total of 97 employees.

Key Events in 2012

The successful development of Zubsolv™ continued at a rapid pace during 2012. The US Food and Drug Administration, FDA, accepted the New Drug Application for review and the target date for approval was set at July 6, 2013.

Zubsolv™

Positive results from pivotal studies concerning Zubsolv

A number of important studies concerning Zubsolv were completed and the results were positive. A dose proportionality study showed the expected bioavailability of buprenorphine and naloxone with increasing doses of Zubsolv. In another study Zubsolv was tested against the market-leading product, Suboxone®, and the results showed the same bioavailability for the two products. A comparative acceptance study between Zubsolv and Suboxone® Film showed that 9 out of 10 participants would choose Zubsolv rather than Suboxone Film for daily treatment.

New Drug Application for Zubsolv accepted for review by the FDA

In September 2012, a New Drug Application for Zubsolv in the USA was submitted to the US Food and Drug Administration, FDA. Besides positive results from studies, the early submission was due to the fact that it was possible to use the product stability data from the company's production unit in Uppsala in the registration. In November the FDA gave notification that the New Drug Application had been accepted for review. The approval date was set at July 6, 2013 and launch of Zubsolv is planned for September 2013.

Abstral®

License agreement with ProStrakan concerning Abstral re-negotiated

Orexo and ProStrakan Group Plc re-negotiated the conditions for the commercial collaboration with regard to Abstral®. ProStrakan acquired the rights to Abstral in Europe and Orexo's share in the joint venture company for the Nordic markets. Orexo acquired all rights to Abstral in the USA. Furthermore, ProStrakan took over all existing collaboration agreements in the rest of the world for Abstral, excluding Japan, where the product has already been licensed to ProStrakan's Parent Company, Kyowa Hakko Kirin Co., Ltd. Orexo received MSEK 610 in fixed royalty payments, as well as future royalty and milestone payments for markets outside the USA, excluding Japan. In EU, Orexo will also receive royalty payments when sales exceed certain levels. This created a stable financial platform for Orexo.

Kyowa Hakko Kirin submitted a New Drug Application for KW-2246 (Abstral) in Japan

Orexo's partner Kyowa Hakko Kirin Co., Ltd. submitted a New Drug Application (NDA) in Japan for KW 2246 (Abstral). This was done after further clinical studies confirming the product's efficacy and safety. The product has already been approved in the USA, the EU and Canada for the treatment of breakthrough pain in patients being treated with opioid analgesics for underlying chronic cancer pain. KW-2246 will be marketed and sold in Japan jointly by Kyowa Hakko Kirin and Hisamitsu Pharmaceutical Co.

Commercialization plan

Guggenheim Securities engaged to evaluate commercial alternatives for Zubsolv and Abstral in the USA

Guggenheim Securities, LLS was engaged as a financial advisor to review and evaluate different strategic alternatives. The Board initiated this review in connection with the company's evaluation of the commercialization plans for Zubsolv and Abstral in the USA, with the aim to increase both the commercial opportunities for the company's products and shareholder value.

Share buyback program

The Extraordinary General Meeting that was held on July 13, 2012 resolved to introduce a program to re-purchase the company's own shares. Up until the next Annual General Meeting a maximum of 10 percent of the shares outstanding may be re-purchased. During the third quarter 1,121,124 shares were re-purchased, corresponding to 3.7 percent of the number of shares outstanding, at a value of MSEK 53. No shares were re-purchased during the fourth quarter.

Edluar®

Edluar approved for registration in Europe

Edluar was approved via the decentralized registration procedure in Europe. Edluar thereby became the second product developed by Orexo after Abstral® to reach the milestone of achieving regulatory approval in both the EU and the USA. Edluar is to be launched in Europe during 2013 by Meda AB, Orexo's global commercial partner for the product, after national registrations have been carried out in each country.

OX51

Dose-finding phase II study initiated for OX51

Orexo initiated a dose-finding study in Europe for OX51 in patients undergoing prostate biopsies. OX51 is being developed to meet the rapidly growing demand for effective pain relief in minor surgical and diagnostic procedures. The results from the study, including approximately 200 patients, will be available during 2013.

Organization

Business operations focused and costs reduced

Development activities were focused on the proprietary programs Zubsolv and OX51. The total need for resources thereby decreased and the organization was reduced by 19 positions. It is estimated that the reduction in the workforce, which will have full effect as from 2013, will lower the costs by approximately MSEK 30 on an annual basis.

OX-CLI

Collaboration with Janssen Pharmaceuticals regarding OX-CLI and OX-ESI terminated and the internal Orexo-based project activities were discontinued.

Orexo AB and Janssen Pharmaceuticals, Inc. entered into an agreement to terminate their collaboration and license agreement regarding the OX-CLI and OX-ESI programs, as well as a third Janssen program. Both parties regained all commercial rights to their own research programs. The OX-CLI and OX-ESI research programs, which aimed to discover and develop new innovative treatments for asthma, chronic obstructive pulmonary disease and other inflammatory diseases, were thus discontinued.

Key Events After the End of the Fiscal Year

Research agreement with AstraZeneca
Orexo entered into a collaboration agreement with AstraZeneca regarding OX-CLI, a preclinical program for potential new treatment of respiratory tract diseases. Pursuant to the agreement Orexo will give AstraZeneca the rights to perform extensive preclinical research and evaluation of substances in Orexo's OX-CLI program. AstraZeneca also has an option to acquire all substances linked to the program. A transfer and license agreement will then be signed by the parties, whereby Orexo will receive milestone payments during the development phase and royalty payments based on future revenues.

New CEO
Nikolaj Sørensen, Chief Commercial Officer of Orexo, was appointed new CEO and Martin Nicklasson, Chairman of the Board, was appointed Executive Chairman. Nikolaj Sørensen replaced Anders Lundström, who stepped down as Chief Executive Officer.

OX17
During February 2013, the license agreement on OX17 between Novartis AG and Orexo, entered into during 2009, was terminated. Orexo will not continue the development program.

Abstral®
In March, Orexo sold Abstral® (fentanyl) Sublingual Tablets in the United States to Galena Biopharma, Inc. Under the terms of the agreement, Galena Biopharma will pay Orexo US$10 million upfront and an additional US$5 million within the first twelve months after signing, plus low double digit royalties and milestone payments based on pre-specified sales levels.

Strategy

Orexo develops improved specialty treatments and treatments for new areas of use – at a lower cost, in a shorter period of time and at a lower risk – by combining known pharmaceutical substances with its patented proprietary sublingual (under the tongue) technologies.

Orexo has three strategic areas of focus:

1) Maximization of the commercial potential of the Company's products

– Successful launch of Zubsolv™ and Abstral® in the USA

Zubsolv and Abstral offer each a highly attractive commercial potential in the USA. In order to deliver the best commercial value, and to reduce Orexo's financial exposure, Orexo has decided to evaluate and find the best commercial partnership structure for each product in the USA.

– Optimization of current collaboration agreements

Orexo collaborates with various companies to maximize the potential of launched products and ongoing development projects. It is assessed that all launched products have considerable growth potential.

– Optimizing Kibion's contribution to the overall business

It is assessed that the potential for continued positive development of Kibion's business is good, in the light of increased use of breath tests for Helicobacter Pylori diagnosis, combined with a broadened distribution network through the Wagner acquisition and coming launches in new geographic markets.

2) Increased cost efficiency in research and development

– Further development of existing products, with special focus on Zubsolv

Clinical studies have begun during the first half of 2013 to investigate the possibility of using Zubsolv in the initiation of treatment of opioid dependence and how well patients comply with treatment including health economic aspects. The broad development program also includes the development of new strengths and flavors.

– Prioritization of the development projects that have the greatest commercial potential

Today the focus is on Zubsolv and OX51.

3) Development towards a fully integrated specialty pharma company

– Establishment of a commercial organization in the USA

Several different possibilities are being investigated. However, Orexo will not build up a full sales organization of its own, but is looking at different partnership structures in the USA. In order to prepare for the launch of Zubsolv and Abstral, Orexo has currently hired several commercially experienced consultants. Furthermore, Orexo intends to expand its capabilities in the USA to ensure an efficient execution and collaboration of the commercialization of the products.

– Increased focus on late-stage clinical development and commercialization

The company prioritizes Zubsolv and its further life cycle management program and OX51, which are the programs that are closest to the market.

– Further development towards continuous commercial production

Zubsolv will be manufactured in both Uppsala and the USA.

Business model

Patient requirements

Orexo's drug development begins with an analysis of the patients' requirements and needs. Opportunities to develop drugs that make healthcare more cost effective are also taken into consideration.

Unique expertise

Orexo has unique expertise to develop and commercialize new products by combining well-known pharmaceutical substances with proprietary innovative drug-delivery technologies.

Product development

Interesting project ideas are identified at the intersection between patient requirements/needs, Orexo's unique technical expertise and commercial insight. These ideas may aim to improve existing products by developing new patient-adapted preparations, or they may target new formulations of existing pharmaceutical substances which are given applications within completely new areas of use. The project ideas are evaluated on the basis of medical and commercial potential and the ones that are assessed having the greatest potential proceed to the development portfolio.

Sales and marketing

Orexo today has the resources and expertise to develop an in-house sales and marketing organization. Previously there was great dependence on partners. The aim is to actively participate in marketing and sales in the largest markets, primarily the USA. Distribution in the rest of the world will primarily be done under licensing agreements. The products that have been launched up until the present time, Abstral® and Edluar™, as well as Kibion's breath tests are mainly sold via partners through licensing agreements and to a lesser extent through distribution agreements. However, Orexo has the rights for sales of Abstral in the USA, and aims to establish a commercial presence in a partnership structure in the USA for Zubsolv.

Portfolio

The proprietary development programs are the most important part of Orexo's development portfolio. Orexo has a number of launched products and these are the result of previous successful development work and commercialization. These products are today out-licensed to other companies and hence sold and managed without Orexo's direct involvement. Finally, Orexo's development portfolio contains a number of collaboration projects for further clinical development of different drug candidates. The strategy going forward is to develop the proprietary development programs all the way to regulatory approval and to then market and sell under company management. Orexo thereby aspires to become a fully integrated specialty pharma company.

Development Programs

The principal focus of the internal development programs is directed towards on Zubsolv™ for the treatment of opioid dependence. Zubsolv is the program that is closest to market launch, and it is assessed to have the greatest sales potential. A New Drug Application for Zubsolv was submitted to the U.S. Food and Drug Administration, FDA, in September 2012, and the estimated approval date is July 6, 2013.

Furthermore, OX51 is being developed for the prevention of procedure-induced pain. It is estimated that the results from an ongoing dose-finding phase II study will be available during 2013. The OX27 program for the treatment of breakthrough pain in cancer patients is at present dormant.

Zubsolv™
Treatment of opioid dependence

Zubsolv is a product for the treatment of opioid dependence. Zubsolv is based on Orexo's broad knowledge of sublingual (under the tongue) preparations. The new product will offer a number of advantages compared with the present market leader, Suboxone®.

Active ingredients and advantages

Just like its competitor Suboxone, Zubsolv consists of a combination of buprenorphine and naloxone. The active ingredient, buprenorphine, has documented good efficacy in the treatment of opioid dependence. It eases withdrawal symptoms at the same time as it blocks the "high" effects of other opioids.

Combining buprenorphine and naloxone (an opioid antidote) in a single tablet counteracts the "high" effect that may arise following inappropriate intravenous injection of a dissolved tablet. The risk of intravenous abuse is thereby reduced.

Through application of its proprietary technologies, Orexo has increased the bioavailability of the active ingredients, accelerated dissolve time, reduced tablet size and improved the taste. Preference for Zubsolv has been compared with Suboxone® Tablet and Suboxone® Film in two independent studies. Key results from these studies show that the subjects in the trials preferred Zubsolv over the competitors (80-90 percent in favor of Zubsolv). Important parameters are improved taste, mouth-feel and ease of administration.

Market potential

Zubsolv is expected to be the first improved branded competitor to Reckitt Benckiser's product Suboxone®, which reached sales of USD 1.5 billion in the USA during 2012. Suboxone grew by over 20% in the USA during 2012. Zubsolv is assessed to have great market potential, as the product's unique properties, which have been confirmed during the studies performed, are expected to lead to increased acceptance by patients.

A preference study that was completed in June 2012 compared Zubsolv and Suboxone® Tablet and demonstrated that 9 out of 10 participants preferred Zubsolv. In November, Orexo completed a study to assess acceptance of Zubsolv compared to Suboxone® Film. The study was a cross-over trial in which 28 participants were given either Zubsolv or Suboxone Film in random order on separate study days. Key results indicate that Zubsolv was preferred by 9 out of 10 participants on all acceptance parameters tested, i.e. overall acceptability, taste masking, after taste experience, mouth-feel, and ease of administration. When asked specifically about which product the participants would choose for daily treatment, 9 out of 10 participants reported that they would select Zubsolv.

Reckitt Benckiser Ltd has announced that they intend to discontinue distribution of Suboxone® in tablet form in the USA during the first quarter of 2013. Suboxone will thereafter only be available from Reckitt Benckiser as a film in the USA creating yet another commercial opportunity for Zubsolv. In late February 2013, the FDA informed that two generics to Suboxone Tablet have been approved.

Based on the increasing medical and non-medical use of prescription opioid products in the USA, Orexo estimates that the American market for the treatment of opioid dependence will continue to grow and that in 2014 it will be worth USD 2 billion. In addition to this, the number of patients actually seeking treatment for opioid dependence has increased and data suggests that the treatment time for these patients is increasing. It is estimated that more than 5 million Americans are dependent on opioids. Just under 10 percent of these patients receive adequate treatment.

The societal cost of opioid dependence is today estimated to USD 55 billion, of which USD 25 billion are healthcare-related costs. According to the Institute of Addiction Medicine the health economic gains from the treatment of opioid dependence may be twelve times the cost of the treatment. Awareness of the gains from treatment is increasing all the time within healthcare.

Orexo assesses that Zubsolv's chances of success on the market are high given the unique properties of the product in a rapidly growing market with major underserved medical needs. The company estimates that the market potential of the product is in excess of MUSD 500 in annual sales.

Project status

During 2012, a number of important studies were completed with positive results. A dose proportionality study documented the expected bioavailability of buprenorphine and naloxone with increasing doses of Zubsolv. In another study Zubsolv was tested and compared with the market-leading product, Suboxone®, and the results displayed the same bioavailability for both products.

In September 2012, a New Drug Application was submitted in the USA to the U.S. Food and Drug Administration, FDA. This occurred several months earlier than estimated. Beside the positive results from the two previously mentioned studies, the time gained was due to the fact that it was possible to use the product stability data from our production site in Uppsala in the registration. In addition to the work at our production site in Uppsala, a production unit is being built up in the USA in collaboration with Orexo's CMO (Contract Manufacturing Organization).

In November the FDA gave notification that the New Drug Application for Zubsolv had been accepted for review. The planned date for notification of approval is July 6, 2013. If this time plan is followed, it is planned that the product will be launched in September 2013.

During the fourth quarter a comparative acceptance study between Zubsolv and Suboxone® Film was completed. The study showed that 9 out of 10 participants would choose Zubsolv rather than Suboxone Film for daily treatment.

In parallel with the New Drug Application in the USA, Orexo is working on further developing Zubsolv. Clinical studies will be initiated during the first half of 2013 in order to investigate whether it is possible to use Zubsolv upon initiation of treatment, how well patients comply with the Zubsolv treatment, and health economic aspects. The broad development program also includes, amongst other things, the development of new strengths and a new flavor.

OX51
Prevention of acute intensive pain

The OX51 project aims to develop a new sublingual product for the prevention of acute intense pain in connection with diagnostic or therapeutic procedures.

The most important advantages of OX51 are that the active ingredient alfentanil has both rapid uptake and rapid elimination. This means that different procedures can be performed in a simpler and less painful way. It would be possible to transfer simpler procedures from hospitals to doctors' offices and in certain cases to district family practitioners, which would also be socioeconomically favorable.

Approximately 130 million painful diagnostic or therapeutic procedures are performed in the USA and Europe each year and the number is increasing. Today hospital surgical procedures are normally performed by the patient being given either a general or a local anesthetic. OX51 has the potential to offer effective relief from procedure-induced pain and reduce the need for giving patients a general anesthetic. Examples of procedures where it is desirable to achieve rapid and short-term pain relief are the relocation of fractures, prostate biopsies and other minor surgical procedures.

OX51's properties are highly suitable for pain relief in short procedures, and this has been confirmed in market surveys performed by Orexo among doctors and paying healthcare institutions.

Orexo's market surveys demonstrate that there is a definite willingness to pay for more efficient pain relief.

A meeting with the U.S. Food and Drug Administration, FDA, during 2011 confirmed that the planned development program may well meet the regulatory requirements for approval in the USA.

During the first half of 2012 a clinical study was performed, where the results confirmed the choice of the final formulation for the coming phase II study. During autumn 2012 a dose-finding phase II study was initiated in patients undergoing prostate biopsies. It is estimated that the results from this European study, including approximately 200 patients, will be available during 2013.

OX27
Treatment of breakthrough pain in cancer patients

OX27 is designed to improve treatment of breakthrough cancer pain. This is short-term intense pain over and above otherwise well-controlled long-term pain, which is treated with opioids. The preparation is a fast-acting sublingual formulation of an existing treatment.

Approximately 60 percent of all cancer patients with pain experience episodes of breakthrough pain. These episodes occur three to seven times per day in affected patients. At present all approved products for breakthrough pain are fentanyl products. These are limited to dosages of no more than four times per day, which means that there is a need for products that can be dosed more often. Studies performed demonstrate that OX27 has the potential to be dosed more often than fentanyl-based products.

The OX27 project has been temporarily dormant since spring 2012 and will most likely not be advanced during 2013. The reason is that the company's resources have to a large extent been focused on Zubsolv™ and its further development.

Products on the Market

At present Orexo has five products on the market. Of these the breath tests for diagnosis of the gastric ulcer bacterium *Helicobacter pylori*, Heliprobe® System and Diabact® UBT, as well as the IRIS® analytical instrument are marketed under company management via the subsidiary Kibion. The specialty pharma company Meda has a global license for Edluar™, which is a product for the treatment of short-term insomnia. Orexo has the commercial rights in the USA for Abstral®, which gives rapid relief from breakthrough pain in cancer patients. In Europe and the rest of the world the rights have been transferred to the ProStrakan Group plc. Orexo's Japanese partner Kyowa Hakko Kirin Co., Ltd. holds the rights for KW-2246 (Abstral) in Japan.

Abstral®

Treatment of breakthrough pain in cancer patients

Abstral treats breakthrough cancer pain in patients already being treated with opioids. The product contains the pain-relieving substance fentanyl. Abstral allows doses to be customized according to individual requirements, which is essential for achieving optimal pain relief.

Abstral is a rapidly disintegrating tablet that is placed under the tongue. The advantage is that the active ingredient is absorbed into the body through the mucous membrane. The effect is thereby fast and predictable. The tablet is easy to dose, store and handle.

The product was approved in 2008 for sales in Europe. Since then it has been launched in most countries in the EU. In January 2011, Abstral was approved by the U.S. Food and Drug Administration, FDA, and was subsequently launched in the USA in April 2011 by Orexo's partner ProStrakan. In February 2011 Abstral was also approved in Canada.
In November 2012, Orexo's Japanese partner Kyowa Hakko Kirin submitted a New Drug Application for KW-2246 (Abstral®) in Japan.

During the second quarter of 2012, Orexo entered into a new agreement with ProStrakan regarding Abstral, whereby Orexo takes over the product rights for Abstral in the USA during the first half of 2013. Orexo assesses that Abstral has good chances of achieving similar success in the USA to that in Europe and currently Orexo is evaluating the best commercial partnership structure in the USA. At the same time ProStrakan acquired the rights in the EU and the rest of the world, except for Japan. Orexo will, in addition to fixed royalty payments, continue to receive royalties on these sales over and above certain predetermined levels.

In the EU Abstral continues to grow rapidly and gain market share. During 2012 sales in the EU amounted to approximately MSEK 350, an increase of 40 percent compared with the previous year.

During 2012, royalty revenues from Abstral's EU sales amounted to MSEK 175.2 (70.5).

Edluar™
Treatment of short-term insomnia

Edluar is an insomnia treatment based on the active ingredient zolpidem. Zolpidem has been used to treat insomnia for a long time. The Edluar tablet is placed under the tongue, where it rapidly dissolves and the active ingredient is absorbed through the mucous membrane.

Meda has acquired the global rights for Edluar. The product was approved by the U.S. Food and Drug Administration, FDA, in March 2009 and in July 2011 the product was also approved in Canada. During the second quarter 2012, Edluar was approved for registration in Europe. It is estimated that the launch will take place during 2013.

Royalty revenues from Edluar™ amounted to MSEK 6.3 (2.4) during 2012.

Heliprobe® System, Diabact® UBT, IRIS®
Diagnosis of ulcer bacteria

Heliprobe System, Diabact UBT and IRIS are used in breath tests to diagnose the gastric ulcer bacterium *Helicobacter pylori* (Hp). It is estimated that half of the world's population carries the bacterium, which is an important factor in the occurrence of gastric ulcers. Furthermore, infected people run an increased risk of developing stomach cancer.

Heliprobe System and Diabact UBT are based on UBT (Urea Breath Test) technology by collecting a sample of the patient's exhaled breath. The products complement each other and are adapted to different market segments. The most important competitive advantages compared with other UBT tests are that the patent-protected technology enables shorter preparations before testing, lower dosages and faster and more reliable results.

IRIS is an instrument that is used for analysis of breath tests such as Diabact UBT. The combination of IRIS and Diabact UBT means that customers can be offered complete systems.

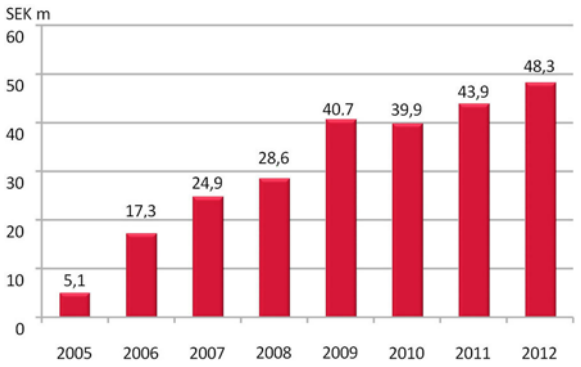
The use of breath tests is increasing and is recommended by leading experts as an excellent alternative to gastroscopy for patients under the age of 55. The diagnostic method is just as reliable, but considerably more cost-effective and convenient for both patients and doctors. During 2012, a new validation study was presented which clearly demonstrates that the combination of IRIS and Diabact UBT gives equally reliable results as the more complicated test method of using mass spectrometry.

Heliprobe, Diabact and IRIS are marketed by Orexo's subsidiary Kibion. The products are sold in more than 60 countries. The German company Wagner Analysen Technik was successfully integrated during 2012. During 2012, Kibion was certified in accordance with ISO 13485, which amongst other things facilitates the registration procedure in a number of markets.

Kibion's sales during 2012 amounted to MSEK 48.3 (43.9). The Middle East and the EU are Kibion's largest markets. The global market for UBT tests amounts to approximately MEUR 250. Future growth potential is assessed to be good in the light of the increased use of breath tests, a broader distribution network due to the acquisition of Wagner and coming launches in new markets.

In the longer term there are opportunities to broaden the product range by developing breath tests for other diseases. During the year, an analysis of conceivable candidates for future breath tests was performed.

Sales of Diabact® UBT, Heliprobe® System in 2012



Collaboration Projects

OX-MPI
Treatment of inflammatory pain

The aim is to develop a completely new class of products, based on Orexo's prostaglandin research. The collaboration with Boehringer Ingelheim, which was initiated in 2005, focuses on specific inhibition of the formation of prostaglandin E2 (PGE2) in different disease processes.

A number of challenges regarding scaling-up and formulation were solved during 2012. The project is proceeding in the preclinical phase with the evaluation of potential clinical strategies.

Boehringer Ingelheim has sole responsibility for all research and development and commercialization of future products. Boehringer Ingelheim makes payments to Orexo when certain milestones are achieved. In addition to this there are royalties on future sales.

OX17
Treatment of gastroesophageal reflux disease (GERD)

OX17 is being developed for the treatment of gastroesophageal reflux disease (GERD). Patients suffering from GERD have recurrent problems with acid reflux, discomfort and pain. Today's treatments provide either a fast, short-term effect or slow but lasting relief. OX17 provides an effect that is both rapid and lasting.

During February 2013 the license agreement on OX17 between Novartis AG and Orexo, entered into during 2009, was terminated. Orexo will not continue the development program.

OX-NLA
Treatment of rhinitis

The aim of the OX-NLA project is to develop a fast-acting nasal spray based on the antihistamine cetirizine for the treatment of allergic and non-allergic rhinitis (hay fever).

Meda has a global license for OX-NLA and is responsible for the project's continuing development.

OX-CLI
Treatment of respiratory diseases

The OX-CLI program aims to identify and develop molecules for new, innovative treatments of inflammation in the airways such as asthma and chronic obstructive pulmonary disease (COPD).
At the beginning of 2013 Orexo entered into an agreement with AstraZeneca regarding OX-CLI. Under this agreement, Orexo grants to AstraZeneca rights to conduct further preclinical research and evaluation of compounds in Orexo's OX-CLI program. AstraZeneca also has an option to acquire the compounds pertaining to the program subject to a full asset transfer agreement being executed by the parties, under which Orexo will receive development milestones and royalties on future revenues.

Employees and Sustainable Development

Orexo endeavors to be an attractive employer which recruits, retains and develops talented employees. Operations are conducted in line with the company's core values of business focus, respect and drive. Business focus requires the company's goals to be taken into account in all decision making. At Orexo, employees respect each other's skills, views and decisions. Through its drive, the company strives to be dynamic, proactive and innovative.

Employees

At year-end, Orexo Group had 97 employees (118). The decrease was a consequence of operations being focused on the company's development programs Zubsolv™ and OX51. The workforce reductions were primarily carried through during the second quarter of 2012.

57 percent of the employees were women (46). Of the 8 (8) individuals in Executive Management, 3 (3) were women. Management has extensive experience of the pharmaceuticals industry and competence in pharmaceutical chemistry, pharmaceutical technology, analytical chemistry, preclinical and clinical development, regulatory affairs, project management, pharmaceutical development, commercial operations and business development.

The employees' high level of expertise is a crucial success factor for Orexo. A measure of their competence is that 25 percent of the employees hold doctorates and 58 percent have another academic degree. Approximately 63 percent of employees were active in research and development during the year.

To ensure that the employees' high level of competence constantly develops, Orexo has an active exchange of knowledge with international networks and collaboration with academic institutions such as Karolinska Institute and Uppsala University. During the year Orexo became part of a training network for pharmaceutical companies in Uppsala.

During the year, operations were conducted in Uppsala Business Park.

An employee survey was carried out during the year. An action plan was drawn up on the basis of this. One main activity in the plan is to further develop the goal process, amongst other things by further strengthening the link between the company's goals and every employee's individual goals. The action plan also includes measures to further improve internal information from Executive Management. The employee survey will be carried out each year in order to capture opinions and to identify relevant areas for improvement.

Performance Management

The systematic Performance Management process is based on Orexo's core values – business focus, respect and drive. Each manager is responsible for identifying departmental objectives that support the overall strategic goals. At the beginning of each fiscal year, the managers and employees jointly set individual targets. Training sessions were held during the year to support the managers in the work of setting relevant targets. It is the responsibility of the manager to create the conditions for, drive, follow up and evaluate the performance of each employee. The individual targets are evaluated in connection with employee performance reviews and ahead of salary reviews.

Work environment

A good work environment is important to ensure work satisfaction. Together with safety officers appointed by the staff, Orexo conducts an active and systematic health and safety program. Any incidents and accidents are followed up and the appropriate measures are taken. 3 occupational injuries occurred during 2012. Training for the safety officers was carried out during the year.

Health and fitness activities

During the year private healthcare and rehabilitation insurance was introduced for all employees. In addition to rapid access to care and rehabilitation, the insurance includes a preventive element. Orexo also offers contributions to fitness activities and preventive healthcare and ergonomics through the company health service.

Sustainable development

Orexo strives to run its operations with the least possible impact on the environment and to be conscious in the use of nature's resources. In order to achieve this, Orexo is active in improving the company's operations in terms of sustainability. Orexo continuously endeavors to limit the use of energy and natural resources through energy efficiency, reduced consumption of disposable materials and improved waste management. In order to reduce the amount of travelling, the company encourages meetings to be held by telephone or on the web. Environmental aspects are taken into account in the procurement of all goods and services, and the aim is to give continous training to co-workers in sustainable development.

During 2012, Orexo shut down early-stage drug development in the form of chemical synthesis and work on biological test models. Orexo now focuses on developing new products on the basis of its proprietary drug-delivery technology and has its expertise in pharmaceutical formulation, in particular in the area of sublingual formulations. Manufacturing is done at the premises

in Uppsala Business Park and by contract manufacturers. Since 2007, Orexo has held an environmental permit for its operations in Uppsala to manufacture products by means of physical processes. In December 2011, an application was submitted for a new environmental permit for early research. This application was withdrawn as the operations that are conducted today are covered by the previously granted permit from 2007. An environmental factor evaluation was carried out during the year to identify the most important environmental factors in all parts of the company. The result was that Orexo should focus its environmental work on product development, manufacturing and the handling of chemicals.

In order to ensure that the company follows current environmental laws and requirements and improves its internal control, an environmental management system based on ISO 14001 was introduced during 2012. There are presently no plans to certify the system. To continuously improve the work with sustainability, Orexo appointed an environmental group during the year which consisted of representatives from different parts of the company. The group will focus on environmental questions and coordinate environmental work.

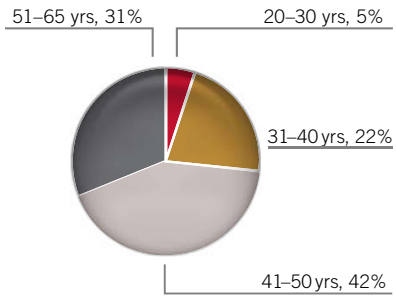
The environmental objectives set for 2013 are:

- To evaluate the impact of the products on the environment
- To identify the most important in-house manufacturing factors impacting the environment
- To take into account environmental aspects in the purchase of all goods and services for manufacturing
- To improve the handling of chemicals and reduce the number of chemicals handled by the company

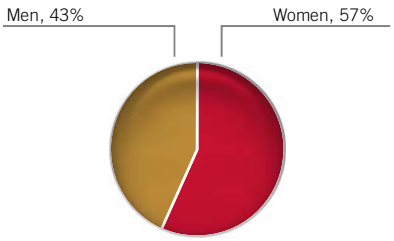
Ethical practice in clinical studies

Orexo conducts clinical studies in collaboration with external experts/organisations. Studies are designed in consultation with the partner in question and continuous assessment is made of risks and benefits. The studies require regulatory approval and regulations and ethical issues in the various countries are taken into account. Since the studies are based on well-known substances, the risk level is generally lower than in connection with clinical tests of new molecules.

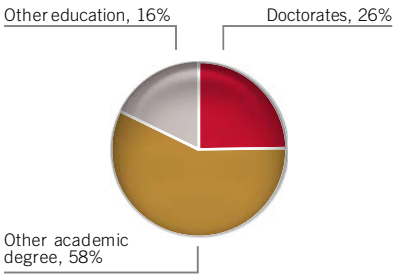
Age distribution



Gender distribution, number 2012



Level of education, number 2012



The Orexo Share

Orexo's share is listed on NASDAQ OMX Stockholm. At year-end, Orexo had a total of 3,588 shareholders and the non-Swedish shareholding in the company amounted to 45 percent. During the year a program for repurchase of the company's own shares was introduced.

The Orexo share is listed on NASDAQ OMX Stockholm under the symbol ORX. During the year the share price rose by 79 percent and the last price paid in 2012 was SEK 49.60 (27.70). This corresponds to a market capitalization of MSEK 1,485 (827). The highest closing price during the year for the Orexo share was SEK 56.25, quoted on September 17. The lowest quotation was SEK 21.00 on May 23.

Liquidity

In total, 13.9 (11.6) million shares in Orexo were traded in 2012, corresponding to a value of approximately MSEK 511 (420). The daily average trading volume was 55,600 shares, corresponding to a value of MSEK 2.2.

Ownership

At year-end, Orexo had 3,588 (3,605) shareholders, of which 400 were registered as legal entities and 3,188 as private individuals. Of the share capital, 55 percent (55) is held by shareholders registered in Sweden and 45 percent (45) by non-Swedish shareholders. The largest proportion of shareholders registered outside Sweden can be found in Denmark at approximately 30 percent.

The list is by shareholder group, where a number of legal entities may be a part of each group above.

Share buyback program

The Extraordinary General Meeting on July 13 resolved to introduce a buyback program regarding the company's own shares. A maximum of 10 percent of the shares outstanding may be repurchased up until the time of the next Annual General Meeting. During the third quarter, 1,121,124 shares were repurchased, corresponding to 3.7 percent of the number of shares outstanding, for a value of MSEK 53. No shares were repurchased during the fourth quarter.

Analysts monitoring Orexo

- **Carnegie,** Carsten Lønborg Madsen
- **Erik Penser,** Johan Dahl
- **Nordea,** Patrik Ling
- **Pharmium Securities,** Frédéric Gomez
- **Redeye,** Klas Palin and Peter Östling
- **SEB Enskilda,** Lars Hevreng

Shareholders at Dec 31, 2012

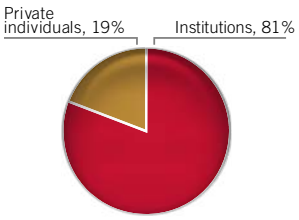
	No. of shares	%
Novo A/S	7,182,658	24.0%
HealthCap	5,532,971	18.5%
Arbejdsmarkedets Tillaegspension (ATP)	1,840,633	6.1%
Abingworth	1,204,730	4.0%
Orexo AB	1,121,124	3.7%
Försäkringsaktiebolaget Avanza pension	939,412	3.1%
Brohuvudet AB	900,000	3.0%
Euroclear Bank S.A/N.V	602,776	2.0%
Lundqvist, Thomas	495,250	1.7%
Handelsbanken (J.P. Morgan EU)	431,289	1.4%
Nyström, Christer	292,000	1.0%
Others	9,403,489	31.4%
Total number of shares	**29,946,332**	**100.0%**

Known shareholders in Orexo, source: Euroclear Sweden A.

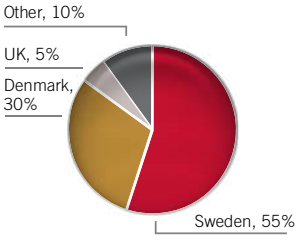
Ownership structure

	No. of shareholders	No. of shares	%
1–500	2,145	408,095	1.4
501–1,000	565	474,819	1.6
1,001–5,000	610	1,368,016	4.6
5,001–10,000	133	1,027,544	3.4
10,001–15,000	36	463,553	1.6
15,001–20,000	13	240,667	0.8
20,001–	86	25,963,638	86.70
Total	**3,588**	**29,946,332**	**100**

Ownership categories



Ownership dist. per country



Performance in 2012

Source: NASDAQ OMX

Financial Performance in 2012

Condensed consolidated statement of operations

MSEK	2012 Jan–Dec	2011 Jan–Dec
Net revenues	**326.3**	**199.6**
Cost of goods sold	–27.9	–29.0
Gross profit	**298.4**	**170.6**
Selling expenses	–62.0	–50.1
Administrative expenses	–82.6	–49.6
Research and development costs	–216.2	–194.4
Other operating income and expenses	–17.1	–268.0
Operating earnings[1]	**–79.4**	**–391.5**
Net financial items	–8.2	–7.9
Earnings after financial items	**–87.6**	**–399.4**
Income tax	1.7	7.4
Net earnings for the period	**–85.9**	**–392.0**

[1] Includes costs for employee stock options of MSEK 9.3 for the period January-December 2012 (MSEK 3.1 January-December 2011).

Revenues

Net revenues

Net revenues for the period January–December 2012 amounted to MESK 326.3 (199.6).

Net revenues were distributed as follows:

Net revenues

MSEK	2012 Jan–Dec	2011 Jan–Dec
Abstral® – royalty (previous agreement[1])	36.8	70.5
Abstral® – royalty (new agreement [2])	138.4	-
One-time payment Abstral	29.3	-
Edluar™ – royalty	6.3	2.4
ProStrakan AB J/V 50 %	8.0	15.6
Kibion AB	48.3	43.9
Total revenues from launched products	**267.1**	**132.4**
Partner-financed R&D costs	23.8	35.1
License revenues	36.7	33.0
Other	–1.3	–0.9
Total	**326.3**	**199.6**

[1] Up until May 31, 2012.
[2] As from June 1, 2012.

Launched products

During the year total revenues from Orexo's launched products increased by 102 percent to MSEK 267.1 (132.4).

Royalty revenues from Abstral® amounted to MSEK 175.2 (70.5). During the fourth quarter, the corresponding royalty revenues amounted, in accordance with the new agreement with ProStrakan valid as from June 1, 2012, to MSEK 59.5 (19.2). Royalty revenues from Edluar™ during the year amounted to MSEK 6.3 (2.4). During the second quarter Edluar was approved in the EU and it is estimated that it will be launched there in 2013.

Kibion's sales for the year amounted to MSEK 48.3 (43.9). The Middle East and the EU are Kibion's largest markets.

As reported during the first quarter, the earlier portion recognized as liability of the milestone payment from Janssen has been recognized in its entirety during the year as a result of the termination of the CLI project. Revenues related to development projects amounted in all to MSEK 36.7 (33.0).

Expenses and earnings

Selling expenses

Selling expenses amounted to MSEK 62.0 (50.1). The expenses primarily include market support activities for the coming commercialization of Zubsolv™ and Abstral® in the USA and selling expenses in the subsidiary Kibion AB.

Administrative expenses

Administrative expenses amounted to MSEK 82.6 (49.6). The increased expenses are primarily attributable to legal expenses related to the company's ongoing patent litigation process regarding Edluar™ in the USA. Expenses for the renegotiation of the Abstral agreement are also part of the increased expenses.

Research and development costs

Research and development costs amounted to MSEK 216.2 (194.4), of which MSEK 23.8 (35.1) was covered by partners, mainly by Janssen and Kyowa Hakko Kirin. The increase in costs in comparison with the previous year is mainly related to activities in connection with clinical studies, primarily the Zubsolv program.

Expenses for the long-term incentive program

The Group's expenses for the employee stock option program totaled MSEK 9.3, in comparison with MSEK 3.1 during the previous year. The increased costs are related to the Orexo share price development during the year.

Other income and expenses

Other income and expenses amounted to MSEK -17.1 (-268.0). Other expenses include expenses of MSEK 12.1 attributable to the workforce reduction that has been carried out, and the write-down of previously acquired research and development amounting to MSEK 10.2. As Zubsolv (OX219) in its entirety is based on Orexo's proprietary technology, the technology included in the acquisition of PharmaKodex has now been completely written off.

The remainder of other income and expenses primarily comprises exchange-rate gains/losses.

Depreciation and amortization

Depreciation and amortization amounted to MSEK 7.1 (7.8).

Net financial items

Net financial items amounted to MSEK -8.2 (–7.9). Net financial items include interest expenses of MSEK 12.0 related to convertible loans.

Income tax

Income tax for the year of MSEK 1.7 (7.4) is attributable in its entirety to the reversal of deferred tax linked to the write-down of previously acquired technology concerning PKX219.

Net earnings

Net earnings amounted to MSEK -79.4 (–391.5).

Financial position

Cash and cash equivalents amounted to MSEK 228.1 (246.9) on December 31, 2012 and interest-bearing liabilities to MSEK 120.6 (120.9). This includes a convertible loan amounting to MSEK 111, for which the conversion price is SEK 47.50 SEK and the maturity date is March 31, 2015.

Cash flow from operating activities amounted to MSEK 28.7 (-117.2) during the year.

During the second quarter a one-time payment of MEUR 3.3 was received related to sales performance of Abstral as well as payment of MGBP 22.5 in accordance with the new agreement with ProStrakan concerning Abstral.

A resolution was adopted at the Extraordinary General Meeting of shareholders on July 13, 2012 to introduce a buy-back program of the company's own shares. A maximum of 10 percent of the shares outstanding can be bought back up until the next Annual General Meeting. Up until December 31, 1,121,124 shares, corresponding to 3.7 percent of the number of shares outstanding, had been bought back at a value of MSEK 53.

Shareholders' equity on December 31, 2012 was MSEK 191.2 (311.1). The equity/assets ratio was 40 (57) percent. The royalty payment in accordance with the Abstral® agreement, which has been received but not yet recognized as revenue, has affected the equity/assets ratio negatively by approximately 10 percentage units.

Investments

Gross investments in tangible fixed assets amounted to MSEK 5.8 (4.7).

Parent Company

Most of the Group's business is carried out in the Parent Company, Orexo AB. Net revenues amounted to MSEK 272.0 (140.8) and earnings after financial items were MSEK -157.1 (-443.8). Investments amounted to MSEK 5.8 (4.7). As of December 31, 2012, cash and cash equivalents in the Parent Company amounted to MSEK 216.6 (227.9). During the year, shares in subsidiaries decreased by MSEK 57.9. This decrease is attributable to the write-down of shares due to the write-down of the value of acquired technology and to the divestment of the Nordic sales company jointly owned with ProStrakan.

Significant risks and uncertainties

Significant risks are essentially the same for the Parent Company and the Group. The risks may be classified as financial and operational. The financial risks are described in Note 3 on page 39. A summary description is presented below of the operational risks attributable to research and development, production, sales and other risks.

R&D does not achieve the expected results

Development of a new product is by nature a complicated and risky process that requires considerable financial resources. Orexo's strategy is to develop improved products at a lower cost, in a shorter period of time and at a lower risk by combining previously known substances with proprietary technologies. The process is controlled by a multidisciplinary organization that handles all critical issues during the development period on the way to an approved product. As Orexo is a relatively small organization, it is necessary to focus on a small number of prioritized projects with high market potential.

The development of these prioritized projects towards an approved product may fail or be delayed due to several factors, such as:

- Unfavourable results in clinical trials.
- Failure to gain the authority approval required for sales of the pharmaceutical product.
- A change in the requirements of the regulatory authorities.

Difficulties in obtaining and protecting patents

Being able to obtain and maintain patents and other intellectual property rights protecting Orexo's technologies and products is an important part of Orexo's ability to create long-term value in its business. Obtaining patents related to pharmaceuticals is a complex process that involves both scientific and legal expertise. Even if a patent has been granted, it may later be challenged legally, declared invalid or by-passed, which may limit Orexo's ability to market its new products.

In addition to the development of its own products, Orexo has a number of development projects licensed to partners, where the partner in each case has complete responsibility for development. If these projects fail or for some reason are terminated, there are no future one-time payments and royalties.

Production process

Production and packing of Orexo's products is done at the company's own facility in Uppsala and by various sub-suppliers in a number of different countries. This production places high demands on methods and processes which must meet "Good Manufacturing Practice" (GMP). Orexo constantly evaluates the fulfilment of GMP both internally and by all strategic subsuppliers. Orexo and its subsuppliers may be inspected by different authorities that have the power to grant approval. Orexo's

production comprises highly potent control substances. There are strict rules and laws for these regarding manufacturing, storage, handling, freight, import and export, and waste management. Access to pharmaceutical ingredients may be uncertain and entail long delivery times. Orexo must therefore ensure that it can gain access to these substances at an early stage.

Effect of political and regulatory decisions
The pharmaceutical market is greatly affected by political decisions that may affect, for example, reimbursement levels for pharmaceutical expenses and limits for the prescription of products.

Before new products are launched, future production volumes must be assessed and production started before final regulatory approval has been received, thus allowing marketing and sales to begin.

Competing products and companies
Orexo's products are sold in a highly competitive market, with competition from both other products and other treatment methods. When patent protection has expired for a product, there is a risk of competition from generic products, with increased price competition as a result. Some competitors today have stronger finances and marketing resources than Orexo, which may constitute a risk in, for example, the launch of Orexo's new product, Zubsolv. In all markets for Orexo's products there is intensive development of new and improved treatments, which may prove to have a better clinical effect than those of today.

Orexo is constantly working to proactively analyze these risks and develop action plans for alternative market scenarios. This is being done together with local external expertise. An advisory multidisciplinary committee has been extablished for Orexo's most important product, Zubsolv, so as to be able to gain insight into future opportunities and how risks should be managed.

Dependence on key persons
Orexo is dependent on a number of key persons within various different areas. The ability to recruit and retain qualified co-workers is of very great importance for ensuring that there is adequate expertise in the company. Orexo has also outsourced a number of activities critical to the business to external consultants. Where they cannot deliver services in time and of the necessary quality, this may have a negative impact on the results of the business.

Revenue and cost forecast for 2013
In March 2013, Orexo sold Abstral® in the USA to Galena Biopharma Inc. Orexo intends to launch Zubsolv in the USA during 2013. A final decision on how the product is to be commercialized has not yet been made. As the cost structure is dependent on what decision is made, the company does not intend to make a cost forecast for 2013. Providing that the time plan for regulatory approval from the FDA is kept, and that the expected launch of Zubsolv takes place in September 2013, the company can be expected to display profitability towards the end of 2013 and have a positive cash flow during 2014.

Competition
Orexo faces two kinds of competition: firstly, from companies with a similar business concept and business model and, secondly, from companies active in the same medical areas. The drug delivery market is growing rapidly and is regarded as highly attractive by a number of companies with various specialist competencies. There are no direct competitors to Orexo, since the company has its own patented technologies, but a potential business partner may select another technical product solution in preference to those offered by Orexo, if such an alternative is available.

Orexo could face competition from existing marketed products for the treatment of pain, inflammation and opioid dependence. However, the treatments currently available are generally considered to be unsatisfactory and there is good potential for Orexo to produce better treatments for these indications.

Orexo licenses some of its products to companies with strong sales and marketing organizations in the respective product area. In each medical area, such as pain, insomnia and GERD, there are varying levels of product competition.

Incentive programs
Orexo has introduced share-based incentive programs in the form of employee stock options, a Board shareholder program and warrants with the aim of motivating and rewarding employees through partial ownership, thereby promoting the Group's long-term interests. For more detailed information, see Long-term incentive programs on page 25.

Principles and guidelines for remuneration to senior executives
The Board proposes that the Annual General Meeting resolve to approve the Board's proposal concerning principles and guidelines for the remuneration of the company's senior executives in accordance with what is stated below, to apply until the 2014 Annual General Meeting. The Board's proposal principally conforms to guidelines previously applied to the remuneration of the company's senior executives. "Management" refers to the President and other senior executives in the company, which in addition to the President comprises seven persons. The Board has appointed a Remuneration Committee to draw up proposals regarding remuneration and other terms of employment for the company's management.

Reasons
Orexo shall offer terms of employment that are in line with market rates so that the company can recruit and retain skilled personnel. Remuneration to company management shall comprise a fixed salary, variable remuneration, long-term incentive programs, pensions and other customary benefits. Remuneration is based on the individual's commitment and performance in relation to previously established goals, individual goals and goals for the entire company. Individual performance is continuously evaluated.

Fixed salary
Fixed salary is generally reviewed on an annual basis and shall be based on the qualitative performance of the individual. The fixed salary of the President and other senior executives shall be in line with market conditions.

Variable remuneration
Variable remuneration shall take into account the individual's level of responsibility and degree of influence. The size of variable remuneration is based on the percentage of set goals met by the individual. Variable remuneration shall amount to no more than 40 percent of the fixed salary of the President and 30 percent of the fixed salary of other senior executives. Furthermore, the Board of Directors shall have the option of allocating variable non-recurring remuneration to senior executives when the Board deems it to be appropriate.

Long-term incentive programs
Orexo has adopted share-based incentive programs intended to promote the company's long-term interests by motivating and rewarding the company's senior executives, among others. For a description of the company's long-term incentive programs, please refer to Note 16, and to the company's website, www.orexo.com.

Other remuneration and terms of employment
The President and other senior executives are covered by defined-contribution pension plans. The pension premiums paid by the company amount to not more than 20 percent of the President's monthly salary, while premiums for other senior executives amount to between 20 and 25 percent of fixed annual salary. The defined contribution pension premiums may be subject to review.

The employment agreement with the President may be terminated with six months' notice. Employment agreements with other senior executives may be terminated with notice of between three and 12 months. The President is entitled to severance pay equivalent to 6 months' salary if employment is terminated by the company. Other senior executives are entitled to severance pay equivalent to between zero and 12 months' salary if employment is terminated by the company. The Board is entitled, if it assesses that this is warranted in an individual case, to assign company work to a Board member over and above the Board assignment, in which case the Board member may be granted reasonable remuneration.

Divergence from guidelines 2013
The Board is entitled to deviate from the above guidelines if the Board determines that there are special reasons in an individual case that warrant such action.

Dividend
The Board does not intend to propose a dividend for the 2012 fiscal year.

Proposed disposition of earnings
The following earnings are available to the Annual General Meeting for appropriation:

Share premium reserve	844,518,317
Retained earnings	–862,899,580
Earnings for the year	–157,072,732
Accumulated deficit	**-175,453,995**

The Board proposes that the accumulated deficit be appropriated so that SEK -175,453,995 is carried forward.

Financial Statements 2012

Consolidated Financial Statements of Operations

(SEK thousands)

Group	NOTES	2012	2011	2010
Net revenues	6, 23	326,278	199,614	210,499
Cost of goods sold	24	–27,875	–28,997	–26,321
Gross profit		**298,403**	**170,617**	**184,178**
Selling expenses	7, 8, 9, 24, 28	–61,983	–50,106	–35,223
Administrative expenses	7, 8, 9, 24, 25, 28	–82,589	–49,561	–46,819
Research and development costs	7, 8, 9, 24, 28	–216,174	–194,411	–161,120
Other operating income	26	8,726	8,681	7,746
Other operating expenses	24, 26	–25,793	–276,723	–30,535
Operating earnings		**–79,410**	**–391,503**	**–81,773**
Financial income		4,082	4,400	1,456
Financial expenses		–12,250	–12,317	–8,942
Earnings after financial items		**–87,578**	**–399,420**	**–89,259**
Income tax	29	1,715	7,411	13
Net earnings for the year		**–85,863**	**–392,009**	**–89,246**
Earnings for the year attributable to:				
Parent Company shareholders		–85,863	–392,009	–89,246
Non-controlling interests		–	–	–
Earnings per share during the year attributable to Parent Company shareholdrs (expressed in SEK)				
– before dilution	31	–2.92	–14.43	–3.81
– after dilution	31	–2.92	–14.43	–3.81

The full loss for each year is attributable to Parent Company shareholders. There are no non-controlling interests.

Consolidated Statements of Comprehensive Income

(SEK thousands)

Group	NOTES	2012	2011	2010
Net earnings for the year		**–85,863**	**–392,009**	**–89,246**
Other comprehensive income				
Cash flow hedge	17	14,435	–	–
Exchange-rate differences	17	–545	–671	–3,524
Other comprehensive income for the period, net after tax		**13,890**	**–671**	**–3,524**
Total comprehensive income for the period		**–71,973**	**–392,680**	**–92,770**
Total comprehensive income attributable to:				
Parent Company shareholders		–71,973	–392,680	–92,770

The notes on pages 35–67 constitute an integral part of this Annual Report.

Consolidated Balance Sheets

(SEK thousands)

Group	NOTES	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010
ASSETS				
Fixed assets				
Tangible fixed assets				
Equipment, renovation of the property of others, machinery and computers	7, 9	35,123	39,241	41,666
Intangible fixed assets				
Patents and intellectual property rights, acquired R & D and goodwill	8, 9	135,086	150,867	407,417
Financial assets				
Derivative instruments		18,507	–	–
Total fixed assets		**188,716**	**190,108**	**449,083**
Current assets				
Inventories	13	28,318	26,689	7,965
Accounts receivable and other receivables	11, 14	36,654	82,445	119,845
Cash and cash equivalents	15	228,067	246,859	135,798
Total current assets		**293,039**	**355,993**	**263,608**
TOTAL ASSETS		**481,755**	**546,101**	**712,691**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity attributable to Parent Company shareholders				
Share capital	16	11,983	11,946	9,361
Other contributed capital	16, 18	1,334,789	1,339,757	1,106,798
Reserves	17	–48,553	–9,440	–8,769
Accumulated deficit	16	–1,117,025	–1,031,162	–639,153
Total shareholders' equity		**191,194**	**311,101**	**468,237**
Long-term liabilities				
Other provisions	18	3,997	565	1,112
Borrowing	19	113,572	114,513	94,421
Deferred tax liability	29	4,071	1,807	8,911
Total long-term liabilities		**121,640**	**116,885**	**104,444**
Current liabilities				
Accounts payable and other liabilities	19, 20	168,921	118,115	140,010
Total liabilities		**290,561**	**235,000**	**244,454**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**481,755**	**546,101**	**712,691**

Changes in Consolidated Shareholders' Equity

Attributable to Parent Company shareholders[1)]
(SEK thousands)

Group	NOTES	Share capital	Other contributed capital	Accumulated deficit	Reserves	Total shareholders' equity
Opening balance at January 1, 2010	16	**9,360**	**1,094,453**	**–549,907**	**–5,245**	**548,661**
Comprehensive income						
Net earnings for the year				–89,246		–89,246
Other comprehensive income						
Translation differences					–3,524	–3,524
Total comprehensive income				**–89,246**	**–3,524**	**–92,770**
Transactions with shareholders						
Employee stock options, value of employees' services	16		2,297			2,297
New share issues	16	1	43			44
Convertible bonds – equity portion			10,573			10,573
Convertible bonds – transaction costs equity portion			–568			–568
Total transactions with shareholders		**1**	**12,345**			**12,346**
Opening balance at January 1, 2011	16	**9,361**	**1,106,798**	**–639,153**	**–8,769**	**468,237**
Comprehensive income						
Net earnings for the year				–392,009		–392,009
Other comprehensive income						
Translation differences					–671	–671
Total comprehensive income				**–392,009**	**–671**	**–392,680**
Transactions with shareholders						
Employee stock options, value of employees' services	16		4,139			4,139
New share issues	16	2,585	242,229			244,814
Issue expenses	16		–13,409			–13,409
Total transactions with shareholders		**2,585**	**232,959**			**235,544**
Opening balance at January 1, 2012	16	**11,946**	**1,339,757**	**–1,031,162**	**–9,440**	**311,101**
Comprehensive income						
Net earnings for the year				–85,863		–85,863
Other comprehensive income						
Translation differences					-545	–545
Cash flow hedge	12				18,507	18,507
Deferred tax	12				–4,071	–4,071
Total comprehensive income				**–85,863**	**13,891**	**–71,972**
Transactions with shareholders						
Employee stock options, value of employees' services	16		4,254			4,254
New share issues	16	37	778			815
Buyback of company's own shares	16				–53,004	–53,004
Total transactions with shareholders		**37**	**5,032**		**–53,004**	**–47,935**
Closing balance at December 31, 2012	16	**11,983**	**1,344,789**	**–1,117,025**	**–48,553**	**191,194**

1) There are no non-controlling interests.

Consolidated Cash Flow Statements

(SEK thousands)

Group	NOTES	2012	2011	2010
Cash flow from operating activities				
Operating loss		–79,410	–391,503	–81,773
Interest received		4,073	4,400	550
Interest paid		–9,179	–9,297	–8,942
Other financial items		–	–138	906
Adjustment for non-cash items	34	23,530	279,354	39,825
Cash flow from operating activities before change in working capital		**–60,986**	**–117,184**	**–49,434**
Change in working capital				
Accounts receivable		36,986	42,698	–67,453
Other current receivables		4,860	2,737	8,275
Inventories		–6,063	–18,147	475
Current liabilities		50,439	–26,785	64,871
Provisions		3,432	–547	299
Cash flow from operating activities		**28,668**	**–117,228**	**–42,967**
Investing activities				
Acquisition of machinery and equipment		–5,767	–4,736	–3,438
Divestment of machinery and equipment		613	–	–
Acquisition of subsidiaries after deductions for acquired cash and cash equivalents		–	–10,298	–
Divestment of joint venture		12,088	–	–
Cash flow from investing activities		**6,934**	**–15,034**	**–3,438**
Financing activities				
New share issue		815	244,814	44
Issue expenses		–	–12,798	–
Borrowings		–	11,743	111,150
Amortization of loans		–2,254	–	–16,000
Buyback of company's own shares	16	–53,004	–	–
Cash flow from financing activities		**–54,443**	**243,759**	**95,194**
Cash flow for the year				
Cash and cash equivalents at beginning of period		246,859	135,798	87,414
Exchange-rate differences in cash and cash equivalents		49	–436	–405
Change in cash and cash equivalents		–18,841	111,497	48,789
Cash and cash equivalents at end of period	15	**228,067**	**246,859**	**135,798**

Parent Company Income Statements

(SEK thousands)

Parent Company	NOTES	2012	2011	2010
Net revenues	6, 23	272,026	140,772	112,951
Gross profit		**272,026**	**140,772**	**112,951**
Selling expenses	7, 8, 9, 24, 28	–46,826	–22,739	–16,533
Administrative expenses	7, 8, 9, 24, 25, 28	–114,198	–76,291	–61,605
Research and development costs	7, 8, 9, 24, 28	–206,709	–182,478	–145,395
Other operating income	26	3,482	3,519	4,136
Other operating expenses	24, 26	–22,778	–40,185	–2,998
Operating loss		**–115,003**	**–177,402**	**–109,444**
Profit/loss from financial investments				
Interest income		4,274	3,758	506
Interest expense		–13,288	–14,181	–9,399
Other financial expenses	27	–33,056	–255,944	–295
Other financial income		–	–	–
Earnings after financial items		**–157,073**	**–443,769**	**–118,632**
Income tax	29	–	–	–
Net earnings for the year		**–157,073**	**–443,769**	**–118,632**

Parent Company Statements of Comprehensive Income

(SEK thousands)

Parent Company	NOTES	2012	2011	2010
Net loss for the period		–157,073	–443,769	–118,632
Other comprehensive income for the period, net after tax		–	–	–
Total comprehensive income for the period		–157,073	–443,769	–118,632
Total comprehensive income attributable to:		–	–	–
Parent Company shareholders		–157,073	–443,769	–118,632

Parent Company Balance Sheets

(SEK thousands)

Parent Company	NOTES	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010
ASSETS				
Fixed assets				
Intangible fixed assets				
Patents and intellectual property rights	8, 9	3,059	72	218
Tangible fixed assets				
Equipment, renovation of the property of others, machinery and computers	7, 9	34,946	39,060	41,566
Financial fixed assets				
Shares and participations in subsidiaries and joint ventures	10	172,168	230,089	604,763
Total fixed assets		**210,173**	**269,221**	**646,547**
Current assets				
Inventories	13	18,489	15,555	2,529
Current receivables				
Accounts receivable	14	18,058	51,847	46,554
Tax claims	14	3,080	2,248	2,046
Other receivables	14	3,232	2,427	527
Receivables from Group companies	14	23,310	16,516	14,338
Prepaid expenses and accrued income	14	7,962	47,800	70,521
Total current receivables		**55,642**	**120,838**	**133,986**
Cash and cash equivalents	15	216,553	227,850	101,400
Total current assets		**290,684**	**364,243**	**235,386**
TOTAL ASSETS		**500,857**	**633,464**	**884,462**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Restricted shareholders' equity				
Share capital	16	11,983	11,946	9,361
Statutory reserve	16	290,751	290,751	290,751
		302,734	**302,697**	**300,112**
Non-restricted shareholders' equity				
Share premium reserve	16, 18	844,518	839,497	606,539
Accumulated deficit	16	–862,899	–366,125	–247,493
Net earnings for the year	16	–157,073	–443,769	–118,632
		–175,454	**29,604**	**240,414**
Total shareholders' equity		**127,280**	**332,300**	**540,526**
Long-term liabilities				
Other provisions	18	3,997	565	1,135
Long-term liabilities	19	103,324	99,839	94,421
Total long-term liabilities		**107,321**	**100,404**	**95,556**
Current liabilities				
Accounts payable	20	18,908	21,108	21,147
Other liabilities	19, 20	17,627	20,356	17,554
Liabilities to Group companies	20	104,426	103,119	123,842
Accrued expenses and deferred income	20	125,295	56,177	85,837
Total current liabilities		**266,256**	**200,760**	**248,380**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**500,857**	**663,464**	**884,462**
Pledged assets and contingent liabilities				
Pledged assets	21	44,000	44,000	44,000
Contingent liabilities	22	8,367	11,295	6,050

Changes in Parent Company's Shareholders' Equity

(SEK thousands)

Parent Company	NOTES	Share capital	Statutory reserve	Share premium reserve	Accumulated deficit	Total share-holders' equity
Opening shareholders' equity at January 1, 2010		**9,360**	**290,750**	**594,523**	**–247,493**	**647,140**
Net earnings for the year					–118,632	–118,632
Total transactions recognized directly in shareholders' equity						0
Total recognized income and expenses					**–118,632**	**–118,632**
Employee stock options, value of employees' services	16			1,969		1,969
Subscription for shares through exercise of warrants	16	1		43		44
Convertible bonds – equity portion	16			10,005		10,005
Opening shareholders' equity at January 1, 2011		**9,361**	**290,750**	**606,540**	**–366,125**	**540,526**
Net earnings for the year					–443,769	–443,769
Total transactions recognized directly in shareholders' equity						0
Total recognized income and expenses					**–443,769**	**–443,769**
Employee stock options, value of employees' services	16			4,139		4,139
New share issues	16	2,585		242,228		244,813
Issue expenses	16			–13,409		–13,409
Opening shareholders' equity at January 1, 2012		**11,946**	**290,750**	**839,498**	**–809,894**	**332,300**
Net earnings for the year					–157,073	–157,073
Total transactions recognized directly in shareholders' equity						0
Total recognized income and expenses					**–157,073**	**–157,073**
Employee stock options, value of employees' services	16			4,242		4,242
New share issues	16	37		778		815
Buyback of company's own shares	16				–53,004	–53,004
Closing shareholders' equity at December 31, 2012		**11,983**	**290,750**	**844,518**	**–1,019,971**	**127,280**

Parent Company Cash Flow Statements

(SEK thousands)

Parent Company	NOTES	2012	2011	2010
Operating activities				
Net earnings before interest expenses and interest income		–115,003	–177,402	–109,444
Interest received		4,274	3,758	506
Interest paid		–10,217	–11,299	–9,399
Other financial items		–29,136	–255,944	–295
Adjustment for items not included in the cash flow	34	52,115	382,290	14,867
Cash flow from operating activities before change in working capital		**–97,967**	**–58,597**	**–103,765**
Change in working capital				
Accounts receivable		33,789	–5,293	17,977
Other current receivables		31,407	18,441	–74,506
Inventories		–2,934	–13,026	–1,144
Current liabilities		63,943	–41,785	157,910
Long-term liabilities		–	–	–
Provisions		3,432	–570	322
Cash flow from operating activities		**31,670**	**–100,830**	**–3,206**
Investing activities				
Acquisition of machinery and equipment		–5,767	–4,736	–3,378
Divestment of machinery and equipment		613	–	–
Divestment of joint venture		14,376	–	–
Cash flow from investing activities		**9,222**	**–4,736**	**–3,378**
Financing activities				
New share issue		815	244,814	44
Issue expenses		–	–12,798	–
Borrowing		–	–	111,150
Amortization of loans		–	–	–16,000
Buyback of company's own shares		–53,004	–	–
Cash flow from financing activities		**–52,189**	**232,016**	**95,194**
Cash flow for the year				
Cash and cash equivalents at start of period		227,850	101,400	12,790
Change in cash and cash equivalents		–11,297	126,450	88,610
Cash and cash equivalents at end of period	15	**216,553**	**227,850**	**101,400**

Notes

(All figures in SEK thousands, unless otherwise stated)

NOTE 1 GENERAL INFORMATION

The principal objective of Orexo AB (publ), the Parent Company and its subsidiaries (the Group), is to develop and improve products based on proprietary drug delivery technology. Orexo has expertise in the area of reformulation and above all in sublingual formulations. Orexo has a portfolio of revenue-generating products approved in the EU and the USA, which are marketed through license agreements, and a pipeline consisting of several reformulations of approved substances in areas where there is a medical need.

Orexo also has collaboration projects with several international pharmaceutical companies.

The Parent Company is the limited liability company Orexo AB (publ), with its registered office in Uppsala, Sweden. The address of the company's head office is Virdings allé 32 A, Uppsala, Sweden.

The Parent Company is listed on NASDAQ OMX Nordic Exchange Stockholm.

The Board of Directors approved these consolidated financial statements for publication on March 19, 2013.

The statements of operations and balance sheets will be presented to the Annual General Meeting on April 11, 2013 for adoption.

NOTE 2 SUMMARY OF IMPORTANT ACCOUNTING POLICIES

The most significant accounting policies applied during the preparation of these consolidated financial statements are specified below. Unless otherwise stated, these policies have been applied consistently for all years presented.

2.1 Basis for preparation of the financial statements

The consolidated financial statements for Orexo were prepared in accordance with the Swedish Annual Accounts Act, RFR 1 Supplementary Accounting Rules for Groups, as well as International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the EU. They have been prepared in accordance with the cost method.

The Parent Company applies the same accounting policies as the Group, except in instances as specified in Note 4 "Accounting policies of the Parent Company". Any deviations that occur between the policies of the Parent Company and the Group are due to restrictions in the ability to apply IFRS to the Parent Company pursuant to the Swedish Annual Accounts Act (ÅRL) and the Pension Obligations Vesting Act and, in some instances, for tax purposes.

Going concern principle

The consolidated financial statements for Orexo are prepared on the basis of the going concern principle. Note 3, "Financial risk management", describes Orexo's liquidity, financing and capital risks.

2.1.1 Amendments to accounting policies and disclosures

(a) New and amended standards applied by the Group

None of the IFRS or IFRIC interpretations that are obligatory for the first time for fiscal years commencing on or later than January 1, 2012 had any material impact on the Group.

(b) New standards, amendments and interpretations of existing standards that have not been applied prospectively by the Group

- IAS 1 "Presentation of Financial Statements"
- IAS 19, "Employee Benefits"
- IFRS 9, "Financial Instruments"
- IFRS 10,"Consolidated Financial Statements"
- IFRS 12, " Disclosures of Interests in Other Entities"
- IFRS 13, " Fair Value Measurement"
- IFRS 11, "Joint Arrangements"

  (Applicable to fiscal year commencing January 1, 2013).

No other IFRS or IFRIC interpretations that have not yet become effective are expected to have any material impact on the Group.

2.2 Consolidated financial information

(a) Subsidiaries

Subsidiaries are all companies in which the Group is entitled to shape financial and operational strategies in a manner that is consistent with a shareholding usually in excess of 50% of the voting rights. The existence and effect of potential voting rights that may currently be utilized or converted must be taken into account when assessing whether the Group exercises a controlling influence over another company. The Group also determines that a controlling influence exists despite not having a participation in excess of 50% of the voting rights but for which it nonetheless is able to govern financial and operating strategies through de facto control. De facto control can arise under circumstances whereby the share of the Group's voting rights in relation to the size and spread of the voting rights of other shareholders enables the company to govern financial and operational strategies etc.

Subsidiaries are included in the consolidated accounts as of the date on which the controlling interest is transferred to the Group. They are excluded from the consolidated accounts as of the date on which the controlling interest ceases to apply.

The purchase method is used to recognize the Group's business combinations. The purchase price for the acquisition of a subsidiary consists of the fair value of transferred assets, liabilities and shares issued by the Group. The purchase price also includes the fair value of all assets or liabilities that are a consequence of an agreement in respect of contingent consideration. Identifiable acquired assets and assumed liabilities in a business combination are initially measured at fair value on the acquisition date. The Group determines on an acquisition by acquisition basis whether all non-controlling interests in the acquired company are recognized at fair value or at the interest's proportional share of the acquired company's net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is completed in several steps, the previous equity interests in the acquired company are remeasured at fair value on the date of acquisition. Any gain or loss arising is recognized in earnings.

Each contingent consideration to be transferred by the Group is recognized at fair value on the date of acquisition. Subsequent changes to the fair value of a contingent consideration classed as an asset or liability are recognized in line with IAS 39, either in the statement of operations or in other comprehensive income. Contingent considerations classed as equity are not remeasured and the subsequent settlement is recognized in equity.

Goodwill is initially measured as the amount by which the total purchase price and fair value of non-controlling interests exceeds the value of identifiable acquired assets and assumed liabilities. If the purchase price is lower than the fair value of the acquired company's net assets, the difference is recognized directly in the statement of operations.

Intra-Group transactions, balance-sheet items and income and expenses for intra-Group transactions are eliminated. Gains and losses resulting from intra-Group transactions and which are recognized in assets are also eliminated. Where necessary, the accounting policies for subsidiaries have been adjusted to guarantee consistent application of the Group's policies.

(b) Joint ventures

The Group's holdings in jointly owned units are recognized in line with the proportional method. The Group combines its share of revenues and costs, assets and liabilities, as well as cash flow in the particular joint venture with corresponding items in its own consolidated accounts. The Group recognizes the share of the profits or losses from the Group's sale of assets to a joint venture that corresponds to the other joint owner's share.

The Group also receives indirect income via the joint venture as a consequence of royalties received for products sold by ProStrakan Ltd to the joint venture. However, this income is eliminated in the Group.

The Group does not recognize its share of profits or losses in a joint venture as a result of the Group's purchase of assets from this joint venture before the assets are sold on to an independent party. However, a loss on the transaction is recognized immediately if the loss entails that an asset is recognized at an excessive value. The Group does not have any holdings in joint ventures at the end of the fiscal year. The joint venture company was divested during the year.

2.3 Segment reporting

Operating segments are recognized in a manner that corresponds to the structure of internal reports submitted to the chief operating decision maker. The chief operating decision maker is responsible for the allocation of resources and assessment of the operating segment's results. For the Group, this function has been identified as Executive Management.

Executive Management assesses the operation in its entirety, i.e. as a segment.

Segments receive their income by selling products and through license revenues comprising lumpsum payments, remuneration for research collaboration, intermediate milestone payments and royalty revenues.

2.4 Translation of foreign currency

(a) Functional currency and reporting currency

Items included in the financial reports of the different units in the Group are valued in the currency used in the economic environment in which each company mainly operates (functional currency). In the consolidated accounts SEK is used, which is the Parent Company's functional currency and reporting currency.

(b) Transactions and balance sheet items

Transactions in foreign currencies are translated to the functional currency using the exchange rates prevailing on the transaction date. Exchange rate gains and losses arising from the payment of such transactions and in the translation of monetary assets and liabilities in foreign currency at the closing date are recognized in the statement of operations among "Other operating income" and "Other operating expenses".

(c) Group companies

The earnings and financial position of all Group companies (none of which use a high inflation currency as their functional currency) that use a functional currency other than the reporting currency are restated at the Group's reporting currency as follows:

- assets and liabilities for each of the balance sheets are restated at the exchange rate applicable on the closing date;
- income and expenses for each of the statements of operations are translated at an average currency exchange rate (provided this average exchange rate is a reasonable approximation of the accumulated effect of the exchange rates applicable on the transaction date; otherwise, income and expenses are translated at the rate applicable on the transaction date), and
- all exchange-rate differences are recognized in other comprehensive income.

Exchange-rate differences arising as a consequence of the translation of net investment in foreign operations and of borrowing and other currency instruments identified as hedges for such investments are recognized in other comprehensive income upon consolidation. When a foreign operation is divested either wholly or in part, the exchange rate differences recognized in shareholders' equity are transferred to the statement of operations and recognized as part of the capital gain/loss.

Goodwill and adjustments of fair value arising in the event of acquisition of a foreign operation are treated as assets and liabilities for this operation and translated at the exchange rate on the closing date.

2.5 Tangible fixed assets

Tangible fixed assets are recognized at cost, less depreciation. Subsequent expenditures are added to the carrying amount of the asset or recognized as a separate asset, depending on which is appropriate, only when it is probable that the future economic benefits related to the asset will accrue to the Group and the cost of the asset can be measured reliably. Expenses incurred in repairs and maintenance are recognized as costs.

Tangible fixed assets are depreciated over the estimated useful life of the asset. When the depreciation amount for assets is determined, the asset's residual value is taken into account where appropriate.

Straight-line depreciation methods are used for all types of tangible fixed assets. The following depreciation periods are applied:

Renovation of the property of others	20 years
Machinery and equipment	5 years
Computers	3 years

In the event that an asset's carrying amount exceeds its estimated recoverable value, the asset is immediately impaired to its recoverable value under "Other operating income" and "Other operating expenses".

The residual value and useful life of assets are tested on every closing date and adjusted where necessary.

Gains and losses from sales are determined by means of a comparison between the sales proceeds and carrying amount and are recognized as "Other operating income" and "Other operating expenses" in the statement of operations.

2.6 Intangible assets

Intangible assets are recognized in the balance sheet when it is probable that the future economic benefits related to the asset will accrue to the Group and the asset's value can be measured reliably. Development expenses are capitalized and recognized in the balance sheet as intangible assets if the criteria for recognition in the balance sheet as stipulated in IAS 38 Intangible Assets are satisfied. Research expenses are expensed as incurred. The R&D operations conducted by Orexo to date have been of such a nature that all R&D expenses have been recognized as an expense as incurred.

Group intangible fixed assets consist of:

(a) Goodwill

Goodwill consists of the amount by which the cost exceeds the fair value of the Group's share of the acquired subsidiary's identifiable net assets on the acquisition date. Goodwill on acquisitions of subsidiaries is recognized as intangible assets. Goodwill is tested annually in order to identify any impairment requirements and in the event there are indications of a sustained decline in value. Goodwill is recognized at cost less accumulated impairment. Since goodwill recognized in the consolidated financial statements is deemed to have an indeterminate useful life, no amortization is applied.

When goodwill is impairment-tested to determine any impairment requirements, it is distributed among cash generating units.

Gains or losses arising from the sale of a unit include the remaining carrying amount of the goodwill pertaining to the divested unit.

(b) Acquired research and development

Acquired R&D consists of acquired individual projects and the surplus values arising in conjunction with business combinations. Ongoing R&D projects acquired through business combinations are recognized at cost as "Acquired R&D". Expenses for continuing research in acquired projects are booked as they arise. Following initial recognition, the assets are recognized in line with the cost method, meaning that Acquired R&D is recognized at cost after deductions for any accumulated amortization and impairment. Amortization according to plan commences when the R&D project in question results in a product that starts to be sold on a commercial basis. See Note 8 for further information.

(c) Patents and rights

Patents and rights are recognized at cost. Patents and rights have a limited useful life and are recognized at cost less accumulated amortization. Amortization is applied straightline in an effort to distribute the cost of patents and rights across their estimated useful life. The following amortization periods are applied:

Patents and rights	5 years
IT systems	3 years

2.7 Impairment of non-financial assets

Assets with an indeterminate useful life are not depreciated/amortized in consolidation but are instead reviewed annually, and in the event of any indication of a sustained decline in value, to identify any impairment requirement. Assets that are depreciated/amortized are assessed in terms of the value of decline whenever events or conditions indicate that the carrying amount is perhaps no longer recoverable. An impairment loss is recognized in the amount by which the asset's carrying amount exceeds

its recoverable amount. The recoverable amount is the higher of the asset's fair value less selling expenses and value in use. When reviewed in respect of possible impairment, goodwill is distributed among cash-generating units, while the impairment requirement of acquired research and development is divided between the projects. In the case of assets other than financial assets and goodwill that were previously impaired, a test is conducted on the closing date to determine whether a reversal is warranted.

2.8 Inventories

Inventories are recognized at the lower of cost and net sales value. Cost is determined on the basis of the first in, first out (FIFO) principle. The cost for finished products and work in progress consists of raw materials, direct salaries, other direct costs and attributable indirect manufacturing costs (based on normal manufacturing capacity). Loan expenses are not included. The net sales value is the estimated sales price in current operations, less deductions for applicable variable selling expenses.

2.9 Financial instruments

Under IFRS 7, companies must disclose whether their financial instruments have a bearing on the company's financial position and earnings. Financial instruments are recognized in the balance sheet when the Group becomes a party in accordance with the contractual terms of the instrument. Receivables are recognized in the balance sheet once an invoice is submitted and the liability recognized once the counterparty has fulfilled its obligations and a contractual obligation to pay exists.

The purpose for which the financial asset or liability was acquired determines classification. Group financial assets and liabilities are classified in the categories shown below:

- Derivatives used for hedging purposes
- Loan receivables and accounts receivable
- Available-for-sale financial assets

The Group's operations primarily focus on the development, production and sale of the Group's products and services. The Group does not actively trade in financial instruments that are not related to the Group's operations. Because of this, the financial assets and liabilities recognized in the balance sheet are primarily current investments, cash and cash equivalents, accounts receivable, accounts payable and borrowing.

During the year, financial instruments only consisted of accounts receivable, loan receivables and derivative instruments. Loan receivables and accounts receivable are financial assets that are not derivatives, that have determined or determinable payments and that are not listed on an active market. These are classified as current assets, if they have a due date of up to 12 months after the balance sheet date. If the due date is more than 12 months after the balance sheet date, the asset is classified as a fixed asset. Loan receivables and accounts receivable are recognized initially at their fair value plus transaction costs and, following the acquisition date, at amortized cost using the effective interest method. Refer also to Notes 11,12, 14 and 15.

2.10 Offset of financial instruments

Financial assets and liabilities are offset and recognized at a net amount in the balance sheet only when there is a legal right to offset the recognized amounts and an intention to settle with a net amount or simultaneously realize the asset and settle the liability.

2.11 Impairment of financial assets

Assets recognized at amortized cost

At the end of each reporting period, the Group assesses whether there is any objective evidence for a financial asset or group of financial assets to be impaired. Impairment losses are only recognized on a financial asset or group of financial assets if objective evidence of impairment exists due to the occurrence of a number of events after initial recognition of the asset (a “loss event”) and the impact of this event (or these events) on estimated future cash flows of the financial asset or group of financial assets can be reliably estimated.

Impairment losses are calculated as the difference between the carrying amount of the asset and the present value of the estimated future cash flows (excluding future credit losses that have not occurred), discounted by the financial asset's original effective interest. The carrying amount of the asset is impaired and the amount of the impairment loss is recognized in the consolidated statement of operations.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash, bank balances and other current investments that mature within three months of the date of acquisition and which are exposed only to a minor risk of value fluctuation.

2.13 Accounts receivable

Accounts receivable are initially measured at fair value and subsequently at amortized cost, using the effective interest method, less any provisions for value losses. A provision for value loss in accounts receivable is made when there is objective evidence that the Group will not receive all the amounts due pursuant to the original conditions underlying the receivables. The size of the provision is determined as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted using an effective rate of interest. The provision amount is recognized in the statement of operations.

2.14 Provisions

Provisions are recognized in the balance sheet when the Group has a legal or informal undertaking as a result of an event that has occurred and when it is probable that an outflow of resources will be required to settle the undertaking.

The provision is recognized in the amount expected to be required to settle the undertaking.

2.15 Accounts payable

Accounts payable are obligations to pay for goods or services that were acquired from suppliers in the course of operating activities. Accounts payable are classified as current liabilities if they mature within one year or earlier (or during a normal business cycle if it is longer than one year). Otherwise, accounts payable are recognized as long-term liabilities.

Accounts payable are initially recognized at fair value and subsequently at amortized cost by applying the effective interest method.

2.16 Borrowings

Borrowings are initially recognized at net fair value after transaction costs. Borrowings are subsequently recognized at amortized cost and any difference between the amount received (net after transaction costs) and the repayment amount is recognized in the statement of operations allocated over the borrowing period by applying the effective interest method.

Borrowings are classified as a current liability unless the Group has an unconditional right to defer payment of the liability by at least 12 months.

2.17 Compound financial instruments

The compound financial instruments issued by the Group encompass convertible bonds that the holder can demand be converted to shares and where the number of shares to be issued is not affected by changes in the fair value of the shares.

The liability portion of a compound financial instrument is initially recognized at fair value for a similar liability that does not provide entitlement to conversion to shares. The equity portion is initially recognized as the difference between the fair value of the entire compound financial instrument and the fair value of the liability portion. Directly attributable transaction costs are distributed across the liability and equity portions to their respective carrying amounts.

After the date of acquisition, the liability portion of a compound financial instrument is measured at amortized cost through the application of the effective interest method. The equity portion of a compound financial instrument is not remeasured after the date of acquisition, except in the event of conversion or redemption.

2.18 Shareholders’ equity

Transaction costs that may be directly attributed to the issuance of new shares or options are recognized net after tax in shareholders' equity as a deduction from the issue proceeds.
The following are recognized as “Other contributed capital”:

- The difference between the share's quotient value and the redemption price of exercised warrants.
- The difference between the share's quotient value and the calculated value of newly issued shares and warrants (option premium).
- Employee stock options, value of employees’ services.
- Cost of shares repurchased by the Parent Company.

2.19 Derivative instruments and hedging measures

Derivative instruments are recognized in the balance sheet on the contract day and at fair value, both initially and upon subsequent revaluations. The method for recognizing the profit or loss that arises upon revaluation depends on whether the derivative is valued as a hedging instrument, and if so, the nature of the item hedged. The Group has hedging instruments in the form of cash flow hedging, which is a hedge of particular risk associated with a recognized asset or liability.

When the transaction is entered into, the Group documents the relationship between the hedging instrument and the hedged item, and the Group's risk management objective regarding the hedge. The Group documents its assessment of whether the derivative instrument is effective with regard to counteracting changes in cash flow attributable to the hedged item. This is done both when the hedge is entered into and continuously.

The effective portion of any changes in the fair value of a cash flow hedge that meets the conditions for hedge accounting is recognized in other comprehensive income. The gain or loss that derives from the ineffective portion is recognized immediately in the statement of operations, in the item "Other gains/losses – net".

Information on the fair value of derivative instruments used for hedging purposes is to be found in note 12.

2.20 Current and deferred income tax

The tax expense for the period includes current and deferred tax. Tax is recognized in the statement of operations, except when the tax refers to items that are recognized directly against shareholders' equity or in other comprehensive income. In these cases, tax is also recognized in shareholders' equity or in other comprehensive income.

The current tax expense is estimated on the basis of the tax regulations on the closing date that are decided, or have essentially been decided, in the countries in which the Parent Company and its subsidiaries are active and generate taxable income. Executive Management regularly evaluates the claims made in tax returns regarding situations in which the applicable tax rules are the subject of interpretation. When deemed appropriate, a provision is made in the amounts that are likely to be paid to the tax authorities.

Deferred tax is recognized in accordance with the balance sheet method on all temporary differences that arise between carrying amounts of assets and liabilities and their value for tax purposes in the consolidated financial statements. However, deferred tax is not recognized if it arises as a result of a transaction that represents the initial recognition of an asset or a liability that is not a business combination and which, on the date of the transaction, affects neither recognized earnings nor earnings for tax purposes.

Deferred income tax is calculated using tax rates (and legislation) that have been decided or announced by the closing date and are expected to apply when the deferred tax receivable in question is realized or the deferred tax liability is settled.

Deferred tax receivables are recognized to the degree that it is likely that future surpluses for tax will be available, against which temporary differences may be utilized.

Deferred tax is calculated on temporary differences that arise on shares in subsidiaries, except where the Group can determine the date for reversal of temporary differences and it is likely that the temporary difference will not be reversed in the foreseeable future.

No value of the loss carry-forwards was recognized in the balance sheet, as it is uncertain when it will be possible to utilize this loss carry-forward.

2.21 Employee benefits

(a) Pension obligations

A defined-contribution pension plan is a pension plan according to which the Group pays fixed fees to a separate legal entity and for which the Group has no further payment obligations once the fees are paid.

The Group uses only defined contribution pension plans. The pension plans are financed through payments to an insurance company.

Fees are recognized as personnel expenses when they fall due for payment. Prepaid fees are recognized as an asset.

(b) Share-based payments

The Group has share-based payment plans in the form of employee and Board member stock options. Settlement is made in shares when the company receives services in return for the Group's equity instruments (stock options). The fair value of the service that provides entitlement to the allotment of options is expensed. The total amount that is expensed is based on the fair value of the allotted options:

- including all market-related conditions,
- excluding any effect of service conditions and non-market-related vesting conditions (for example, the employee remains employed at the company for a stipulated period of time), and excluding the effect of conditions that are not vesting conditions,
- including internal operational targets approved by the Board.

Non-market-related vesting conditions are taken into account in the assumption of the number of options that are expected to be vested. The total cost is recognized over the entire vesting period, which is the period during which all of the stipulated vesting conditions are to be fulfilled. At the end of each reporting period, the company reviews its assessment of how many shares can be expected to be vested based on the non market-related vesting conditions. Any divergences from the original assessments prompted by the review are recognized in the statement of operations and a corresponding adjustment is made in shareholders' equity.

The company issues new shares when the stock options are exercised. Received payments, after deductions for any directly attributable transaction costs, are credited to share capital (the quotient value) and other contributed capital when the stock options are exercised.

Social security expenses on the benefits that are expected to arise in conjunction with value increases are recognized over the vesting period with due consideration of value changes, in accordance with UFR 7.

(c) Severance payments

Severance payments are made when the Group serves notice to an employee prior to the normal pension date or when an employee voluntarily accepts redundancy in exchange for such remuneration. The Group recognizes severance payments when it is clearly obliged to give notice to an employee according to a detailed formal plan with no possibility of it being revoked, or to provide remuneration in conjunction with termination of employment as a result of an offer made to encourage voluntary redundancy. Benefits due more than 12 months after the closing date are discounted at their present value.

(d) Accounting policies for bonus plans

The Group has a bonus system that covers some employees. The bonus system is based on achievement of company goals and is paid out in proportion to annual salary. During the fiscal year, the estimated bonuses vested for the year are calculated and expensed. Payment of the vested bonus is made in the subsequent year, normally in February.

2.22 Revenue recognition

Revenues comprise the fair value of goods and services sold, excluding value-added tax, rebates and discounts and after eliminated intra-Group sales. Revenues are recognized as follows:

Sale of goods

Revenues from the sale of goods are recognized on the date of delivery to the customer, that is, the date on which ownership rights are transferred to the customer, who thereby assumes the financial risk. By industry practice, pharmaceuticals may not returned to the seller.

License revenues

Orexo's license agreements usually include one or more of the following types of income:

- A lump-sum payment on the signing of the agreement – normally without repayment obligation. This normally pertains to the right to register, market and sell Orexo's patent-protected products within a particular geographic area, or it may also constitute payment for the transfer of technology or know-how to the business partner. In the event a lump-sum payment covers more than one delivery (for example, the transfer of rights and technology), income is distributed on the basis of the fair value for each part-delivery.
- Payment for research collaboration. These are received on an ongoing basis and are recognized over the period to which they pertain and during which the work is conducted.
  Milestone payments are triggered when a research target or sales target is attained in line with the definitions in each agreement, such as the granting of a patent, termination of clinical testing or approval of registrations. Such payment is recognized when all the terms and conditions pursuant to the agreements have been met.

Royalty revenues

- Royalties are normally received on a rolling basis when distributors recognize sales and are paid in the same period during which sales were made. When royalties are paid in advance, the revenue is recognized in the periods that payment is for.

Interest income
Interest income is recognized over the term using the effective interest method.

2.23 Leasing
Leasing is classified in the consolidated financial statements either as financial or operational leasing, pursuant to IAS 17, Leasing Agreements. Financial leasing is the case when the financial risks and benefits associated with ownership are essentially transferred to the lessee. In other cases, leasing is operational leasing.

In the case of agreements classified as financial leasing, the object is recognized as a fixed asset in the consolidated balance sheet. The obligation to pay future leasing fees is recognized as a long-term or current liability. At the beginning of the leasing period, the asset and liability are recognized at the lower of the leasing object's fair value and the present value of the leasing fees. The leasing fees are distributed among interest and amortization of the liability. Interest is recognized in the statement of operations, with amortization recognized in the balance sheet. The interest expense is distributed across the leasing period so that each reporting period is charged with an amount corresponding to a fixed rate of interest for the liability recognized for the specific period. The leased asset is depreciated in accordance with the rules for depreciable assets. If it cannot be ascertained that ownership will transfer to the Group at the end of the leasing period, the object is depreciated in its entirety during the leasing period or its useful life, whichever is the shorter. Depreciation is recognized in the statement of operations.

2.24 Cost of goods and services sold
The cost of goods sold comprises the materials cost for the products the Group itself sells on the market, via the Kibion AB and Wagner Analysen Technik GmbH subsidiaries and the ProStrakan AB joint venture. The cost of services sold, relating to research collaborations, is recognized as development costs.

2.25 Hedge options
On redemption of employee stock options issued by Orexo, the difference between the market value for the share applicable at the time and the redemption price is taxed in the income tax schedule for the employee. Similarly, Orexo must pay social security fees on this difference. The cost of these payroll overheads is set on a rolling basis during the term of the options, whilst fees are not paid until the time of redemption. To hedge itself against the liquidity effect of this, Orexo has issued options to the subsidiary Pharmacall with the intention that this subsidiary divest itself of these on the market and use this liquidity to pay the social security fees. Such hedging does not qualify for hedge accounting under IFRS, but is instead classified as a capital transaction. Corporate gains, such as an increase in shareholders' equity, arising on the divestment of options are recognized in shareholders' equity and designated "Redeemed hedge options", while liquidity that Orexo receives from the redemption of these options is recognized under "Subscription of shares through the exercising of warrants". No hedge options were redeemed during 2010, 2011 or 2012.

NOTE 3 FINANCIAL RISK MANAGEMENT

The Group's operations expose it to a number of financial risks. These risks can be categorized into operational risks and financial risks. The financial risks are described below, along with the manner in which these are managed in order to minimize the risk level.

Financial risks and policies
To efficiently manage financial risks, Orexo has drawn up a series of guidelines and a detailed financial policy in respect of the manner in which such risks are to be managed and mitigated. Orexo's financial policy also establishes the distribution of responsibility and reporting instructions for Executive Management. The main purpose of Orexo's financing operation is to limit negative deviations in the financial results, shareholders' equity and cash flow as the result of fluctuations in interest rates or exchange rates.

The President of the Group is responsible for producing, implementing and following up the Group's financial policy, which is subsequently approved by the Board of Directors. The Group's Chief Financial Officer is responsible for the day-to-day financial administration and reports on a monthly basis, or when necessary, to the Group President.

3.1 Market risk

Currency risks
The Group is exposed to currency risks through export/import transactions (flow exposure), mainly in US dollars (USD), euros (EUR) and pounds sterling (GBP). The Group has assets (accounts receivable) and liabilities (accounts payable) in foreign currencies (balance exposure), as well as investments in the form of net wealth in foreign subsidiaries (translation exposure). Orexo's financial statements are prepared in SEK and the company has its primary operations in Sweden. Accordingly, most operating expenses are in SEK. However, the company sells its products in countries other than Sweden and receives revenues in currencies other than SEK.

Assets, liabilities, revenues and expenses in foreign currency give rise to currency exposure. A decline in SEK against other currencies increases Orexo's recognized assets, liabilities, revenues and costs, while a strengthening of SEK in relation to other currencies reduces these items.

Flow exposure arises when sales are conducted in some currency other than the related costs and expenses. A substantial share of Orexo's flow exposure is attributable to the sale of Diabact UBT® and Heliprobe™ System outside Sweden, remuneration for research collaborations and license revenues and royalty income for the company's products in currencies other than SEK. The license agreements written with counterparties are frequently denominated in some other currency than SEK, primarily USD, EUR or GBP.

The company has the option of hedging revenues in foreign currency. The financial policy permits exchange-rate hedging instruments to be used to eliminate or minimize the currency risks arising in the company and this must always be linked to an underlying exposure. The permitted hedging instruments are currency futures, acquired currency options (call and put options), currency accounts and loans in foreign currency.

A substantial share of Orexo's sales is in currencies other than SEK, primarily USD, EUR and GBP. However, most of Orexo's operating expenses are in SEK. During the 2012 fiscal year, sales in USD accounted for 2 percent (18) of net revenues, with sales in EUR accounting for 36 percent (50) and sales in GBP for 40(0). During the same period, 36 percent (17) of total operating expenses were in foreign currency with 68 percent (30) in USD, 18 percent (29) in EUR and 12 percent (21) in GBP.

To limit the currency risk, concluded agreements should include a currency adjustment clause whenever possible. In currencies in which the Group has flows in the same currency, the flows are to be matched to the greatest extent possible. At present, the Group hedges royalty revenues related to the agreement with ProStrakan.

A change in value of USD against SEK of 10 percent entails a change in revenues of approximately MSEK 0.6 and in earnings of about MSEK 9.9. The corresponding change in EUR entails a change in revenues of approximately MSEK 12.6 and in earnings of about MSEK 2.6, and in GBP a change in revenues of approximately MSEK 13.0 and in earnings of about MSEK 1.2. The great effect of the change in the value of USD on earnings is due to the fact that during 2012 the Group has had large expenses in this currency. A 10 percent movement in EUR entails an impact on equity of approximately MSEK 0.5. Otherwise, the impact on equity is largely in line with the impact on earnings.

Translation exposure arises when the Group's earnings are influenced by exchange rate fluctuations when earnings for foreign subsidiaries are translated to SEK. Since foreign subsidiaries are only an insignificant part of the operations, this exposure is not hedged. The Group's shareholders' equity is affected by exchange rate fluctuations when the foreign subsidiaries' assets and liabilities are translated to SEK. This exposure is not currently hedged.

Interest rate risk
The primary objective of Orexo's interest rate risk management is to reduce the negative effects of interest rate movements on net interest income. To reduce the impact of interest rate movements on earnings, Orexo mainly uses short-term investments. At year-end, all of Orexo's cash and cash equivalents were held in bank accounts.

It shall be possible to trade all investments not in bank accounts on a second-hand market, with the maximum term for an individual investment being five years. Orexo normally retains instruments until their maturity date.

Orexo's policy is that securities purchased with surplus liquidity should have a low risk profile.

The Group had interest bearing liabilities totaling MSEK 120.6 on December 31, 2012. The interest bearing liability relates to a convertible loan with a fixed annual interest rate of 8 percent and a bank loan raised in conjunction with the acquisition of Wagner Analysen Technik GmbH with an interest rate of about 3.5 percent.

Simulations conducted show that the impact on earnings of a difference in interest rates of 0.5 percent would entail an increase/decrease of SEK 42 thousand.

Price risk

The Group is not exposed to any price risk.

3.2 Credit risk and counterparty risk

Credit and counterparty risk is the risk that the counterparty will not fulfill its undertakings to repay a liability or pay interest on such a liability and the risk associated with balances with credit institutions.

For the Group, there are mainly three categories of payment flows from customers in which credit risks could arise: in the subsidiaries Kibion's and Wagner Analysen Technik's sales to distributors, the payment flows from Orexo's license agreements with other parties and bank balances.

With regard to Kibion's distributors, credit risks are reviewed on an ongoing basis based on the customer's financial position, previous experiences and other factors.

An extensive evaluation of the counterparty is always undertaken prior to the signing of a license agreement.

Accounts receivable are continuously monitored, with checks performed on due customer invoices. Of total accounts receivable at December 31, 2012, the two largest customers accounted for 50 percent. No other single customer accounted for more than 5 percent of total accounts receivable. Note 14 presents the amounts due.

The Group's financial transactions shall only be carried out with banks with an official rating not below A1- (according to Standard & Poor's).

3.3 Liquidity and financing risk

Liquidity risk is defined as the risk that Orexo will be unable to fulfill its undertakings to pay debts on time or at a reasonable cost. Liquidity risk is managed by means of the Group holding sufficient cash and cash equivalents to ensure continuing operations.

Cash flow forecasts are prepared each month. Executive Management continuously monitors the forecasts for the Group's liquidity to ensure that the Group has sufficient cash funds to meet the requirements of continuing business operations.

The table below shows the Group's contractual non-discounted cash flows from financial liabilities, distributed on the basis of the period remaining to maturity on the closing date.

At December 31, 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Accounts payable	19,790	–	–
Accrued costs	9,355	–	–
Borrowings	11,356	11,298	117,500
Derivative instruments	11,388	7,119	–

At December 31, 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Accounts payable	27,323	–	–
Accrued costs	51,852	–	–
Borrowings	11,621	11,539	129,130

At December 31, 2010	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Accounts payable	25,478	–	–
Accrued costs	78,153	–	–
Borrowings	8,892	8,892	131,157

During 2012 Orexo entered into an agreement with ProStrakan regarding license rights for Abstral in Europe, the rest of the world and the USA. Pursuant to this agreement Orexo receives fixed royalty revenues of MGBP 55. Of this amount, MGBP 22.5 was received during 2012, MGBP 20 will be paid during 2013, and MGBP 12.5 will be paid in 2014.

Orexo's proprietary development programs, Zubsolv, OX51 and OX27, proceeded according to plan during the year with respect to clinical trials and contacts with regulatory bodies. Zubsolv is the development program that is closest to market launch. On the basis of such factors as anticipated royalty revenues, milestone payments and budgeted costs for development, sales and administration, as well as the cash and cash equivalents and other assets held by the company, it is the Board's assessment that the current financing level is sufficient to carry out the planned operations for a period that comfortably extends beyond the next 12 months.

3.4 Capital structure

The Group's objective for its capital structure is to safeguard the Group's ability to continue its operations so it can generate a return for the shareholders and benefits for other stakeholders, as well as maintain an optimum capital structure to keep capital costs down.

The Group's capital is assessed on the basis of its equity/assets ratio. The equity/assets ratio at December 31, 2012, 2011 and 2010 is presented in the table below:

	2012	2011	2010
Shareholders' equity	191,194	311,101	468,237
Total assets	481,755	546,101	712,691
Equity/assets ratio	**40%**	**57%**	**66%**

The royalty payment in accordance with the Abstral® agreement, which has been received but not yet entered as a revenue, has negatively affected the equity/assets ratio by approximately 10 percent.

NOTE 4 ACCOUNTING POLICIES OF THE PARENT COMPANY

4.1 Basis for preparation of the financial statements

Orexo AB, the Parent Company, has prepared its annual accounts in accordance with the Swedish Annual Accounts Act and the Swedish Financial Accounting Standards Council's recommendations RFR 2. RFR 2 stipulates that the Parent Company must apply International Financial Reporting Standards (IFRS) as adopted by the EU, to the extent that this is possible within the framework of the Swedish Annual Accounts Act and the Pension Obligations Vesting Act and taking into account the relationship between accounting and taxation. The recommendation specifies the exceptions and additions to be made in relation to IFRS.

Consequently, the Parent Company applies the policies presented in Note 2 of the consolidated financial statements, with the exceptions outlined below. The policies are applied consistently to all years presented, unless otherwise stated.

Preparing financial statements that comply with applicable regulations requires the use of some important estimates for accounting purposes. Furthermore, it is required that Executive Management conducts certain assessments in the application of the company's accounting policies. The areas that involve a high degree of complex assessment or areas in which assumptions and estimates are of material importance for the company's Annual Report are outlined in Note 5.

Presentation forms
The statement of operations and balance sheet comply with the forms set down in the Swedish Annual Accounts Act, meaning that the primary differences compared with the consolidated financial statements primarily pertain to financial income and expenses, provisions and the statement of changes in shareholders' equity.

4.2 Segment reporting
Information is provided only on the distribution of net revenues by areas of operations and geographic markets.

4.3 Shares and participations in subsidiaries and associated companies
Shares and participations in subsidiaries and associated companies are recognized at cost with deductions for any impairment. Additional purchase prices are recognized as payment for future services included in the cost. Dividends received are recognized as revenues insofar as they derive from profits earned after the acquisition. Dividends that exceed these profits are regarded as a repayment of investment and reduce the carrying amount of the participation.

When there are indications that shares and participations in subsidiaries or associated companies have declined in value, an estimate is made of the recoverable amount. If this is lower than the carrying amount, impairment is applied. Impairment losses are recognized in the items "Results from participations in Group companies" and "Results from participations in associated companies".

4.4 Financial instruments
Financial assets are classified in a different manner in the Parent Company's balance sheet than in the consolidated balance sheet. The notes on the financial assets show the manner in which the items in the balance sheet relate to the classification used in the consolidated balance sheet and in the consolidated accounting policies. The company applies measurement at fair value in line with the Swedish Annual Accounts Act (ÅRL) 4: 14 a-d and the description of the accounting policies in Note 2 for the Group thus also applies to the Parent Company, except as regards accounting for the effects on earnings.

4.5 Group and shareholders' contributions
Shareholders' contributions granted are recognized as an increase in the value of shares and participations. An assessment is then made as to whether there is a need for impairment of the value of shares and participations in question.

Group contributions are recognized on the basis of their financial implications, meaning that Group contributions that are granted or received for the purpose of reducing the Group's total tax are recognized either as an appreciation of the value of shares and participations or as an expense in the statement of operations. Group contributions received and which may be compared to dividends are recognized as dividends from Group companies in the statement of operations. Group contributions granted, which may be compared to a shareholders' contribution, are recognized in line with the principle for shareholders' contributions above with due consideration of the effect on current tax.

4.6 Deferred income tax
Amounts allocated to untaxed reserves represent taxable temporary differences. Due to the relationship between accounting and taxation, however, in a legal entity deferred tax liabilities on untaxed reserves are recognized as part of untaxed reserves.

4.7 Leasing
All leasing agreements, irrespective of whether they are financial or operational, are recognized as operational leasing (leasing agreements).

4.8 Guarantee commitment/Financial guarantees
The Parent Company has issued a financial guarantee for the benefit of the subsidiary Kibion AB. This relates to a bank loan raised in connection with the acquisition of Wagner Analysen Technik GmbH.

NOTE 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events deemed reasonable under prevailing circumstances.

5.1 Critical estimates and assessments for accounting purposes
The Group makes assessments and assumptions about the future. The resulting accounting estimates will, by definition, seldom correspond to the actual results. Estimates and assumptions that entail a significant risk of material adjustment to the recognized amounts of assets and liabilities during the next fiscal year are outlined below.

(a) Impairment testing of goodwill
Regarding goodwill, an assessment is made of the asset's annual value decline or when there is an indication that the carrying amount of goodwill exceeds the recoverable amount. Goodwill, whose value has declined, must be impaired down to the recoverable amount that goodwill is deemed to have on the basis of the information available. The recoverable amount is defined as the higher of the net sales value and the value in use. The value in use is estimated by means of a discounted cash flow method based on future expected incoming and outgoing payments. Material differences in assessments of the future anticipated cash flows and the discounted rate of interest used could result in different valuations for an asset. For further information, refer to Note 8.
At December 31, 2012, goodwill amounted to 25,827 (33,448).

(b) Impairment testing of acquired research and development
Research and drug development are characterized by significant operative risks. Several factors affect the probability of a drug project resulting in an approved preparation. The risk of not reaching the market diminishes after a project passes through the various phases in the research and development process. Of the Group's acquired R&D projects, one has reached the clinical phase, while one is in the preclinical phase.

The value of acquired R&D is tested annually to ensure that the carrying amount does not exceed the recoverable amount. This impairment testing includes experience-based estimates of the amount of future incoming and outgoing payments. The probability of the occurrence of income-generating events and the probability that the projects will result in products that reach the market are estimated based on available industry statistics. These probabilities vary depending on the phase of development that the R&D projects are in. Future incoming and outgoing payments are adjusted to the level of probability and subsequently discounted by applying a rate that reflects the cost of capital and risk. If an acquired R&D project were to be discontinued, the carrying amount of the project would be immediately written down to zero and the impairment loss would be charged to earnings. For further information, refer to Note 8.

During the year, acquired R&D was impaired in accordance with the above by 10,159.

At December 31, 2012, acquired R&D amounted to 106,200 (116,610).

(c) Royalty revenues
Royalties may be impacted by external factors, including sales limitations or price regulations initiated by authorities in the countries in which sales are conducted. This is out of the control of the company and information of this nature does not normally reach the company until it is already too late. Because of this, it can be difficult to estimate royalty revenues, which in turn can lead to erroneous allocation to a particular period.

5.2 Critical judgments in the application of the company's accounting policies

(a) Assessment as to whether a license agreement entails the divestment or a grant of rights

Certain license agreements entail that global rights are transferred to a business partner. Since Orexo retains the intellectual property rights, which may be retrieved under certain circumstances, these agreements are not recognized as though the licensing agreement implies a divestment. For Orexo, this means that these assets remain in the balance sheet item "Acquired research and development".

Orexo's research, collaboration and commercialization agreements with Boehringer Ingelheim guarantee future revenues to Orexo and give Orexo the option of marketing products within the framework of the project in certain countries in conjunction with Boehringer Ingelheim. On this basis, it is the assessment of the company that the licensing agreement does not imply that the asset has been divested, which is why it remains recognized in Orexo's balance sheet.

(b) Research and development

Costs attributable to research are expensed as they arise. Costs attributable to development projects are recognized as intangible assets in the balance sheet in cases in which these costs may be expected to generate future financial benefits. Other development costs are expensed as they arise. Development costs that are expensed are not recognized as an asset in subsequent periods. For 2012, these costs amounted to 216,174 (194,411).

Executive Management is of the opinion that the development costs recognized for 2012 cannot, in any part, be recognized as an asset because it cannot be reliably determined that the ongoing projects fulfill the requirements entitling recognition as an asset. To the extent that Orexo may independently conduct and finance development projects through to later phases in the years ahead, some of the company's future development expenditures may fulfill the requirements for asset recognition.

(c) Revenue recognition

Executive Management assesses the probability of whether future financial value will accrue to the Group on the basis of a number of factors, such as the customer's payment history and credit worthiness. If the Group deems a receivable to be doubtful, a provision is made until it is possible to determine whether or not the Group will receive payment.

During the year, the Group received lump-sum payments from a number of collaboration partners. These payments have been in the form of payments both with and without demands for recompense from the Group. A licensing agreement permits Orexo's partners to register, market and sell the Group's patented products within a certain geographic area for a specified time. Lump-sum payments received and considered remuneration for this exclusivity are recognized directly. Wherever lump-sum payments are considered to be remuneration for future services in return, the revenue is distributed over time based on the implications of such services, e.g. when a lump sum payment is received and a research collaboration agreement is in place, remuneration is distributed straight-line over the time the research collaboration continues.

A milestone payment is an item of revenue related to achieved goals specified in the agreement with the partner in question. Such goals may include the start of clinical trials or the granting of product registration approval by an authority. Revenues for intermediate milestone payments are recognized once the goal has been achieved and the Group has fulfilled its undertakings.

During the year Orexo and ProStrakan Group plc renegotiated the conditions of the commercial collaboration regarding Abstral, whereby the royalty conditions were restructured. The agreement means amongst other things that Orexo receives payments in the form of royalty revenues for sales of Abstral in ProStrakan's territories. Part of the royalty rate has been replaced by fixed one-time amounts, which are partly received earlier than what would probably have been the case otherwise. The fixed amounts that have been received have been allocated to future periods in order to reflect the financial thrust of the agreement. The agreement also includes variable royalties, which are entered as revenue as and when sales are made.

(d) Deferred taxes

Orexo has significant loss carry-forwards. Orexo concludes that there is not a sufficiently high level of probability of them being utilized. The loss carry-forwards for tax purposes in the Group amounted to MSEK 1,139 (1,175) at December 31, 2012.

NOTE 6 SEGMENT INFORMATION

The Group has defined its operating segments based on the information used by Executive Management to make strategic decisions and management assesses the operations as a single unit, meaning that the company has only one segment.

The Group's operations are conducted primarily in the geographic areas below. Sales figures are based on the country in which the customer is located. There are no sales between geographic areas.

	Group			Parent Company		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Sales distributed geographically						
Sweden	10,798	12,098	11,803	54,494	56,411	41,644
UK	207,409	73,466	49,510	204,472	70,628	49,510
Other EU countries	9,524	13,634	75,421	–	5,407	351
East Asia	14,549	6,641	20,776	12,233	5,970	20,716
US	48,335	54,637	27,854	827	975	730
Other countries	35,663	39,138	25,135	–	1,381	–
Total	**326,278**	**199,614**	**210,499**	**272,026**	**140,772**	**112,951**

The company's three largest customers combined account for 81 percent (81) of the company's net revenues. They contribute 63 (38) percent, 15 (32) percent and 3 (11) percent, respectively.

Assets and investments outside Sweden amount to MSEK 0.1 (0.9).

NOTE 7 TANGIBLE FIXED ASSETS

Group	Equipment and machinery	Computers	Renovation of others' property	Art and non depreciable equipment	Financial leasing	Total
Fiscal year 2010						
Opening balance	12,532	955	31,933	394	–	45,814
Purchases	3,403	35	–	–	–	3,438
Disposals	–1,322	–1,393	–205	–	–	–2,920
Depreciation	–4,848	–858	–1,623	–	–	–7,329
Disposals	1,182	1,391	99	–	–	2,672
Exchange-rate differences	–9	–	–	–	–	–9
Closing balance	**10,938**	**130**	**30,204**	**394**	**–**	**41,666**
At December 31, 2010						
Cost	28,841	2,131	36,174	394	1,894	69,434
Accumulated depreciation and impairment	–17,903	–2,001	–5,970	–	–1,894	–27,768
Carrying amount	**10,938**	**130**	**30,204**	**394**	**–**	**41,666**
Fiscal year 2011						
Opening balance	10,938	130	30,204	–	–	41,666
Purchases	4,100	673	–	–	–	4,773
Increase through business combinations	183	–	–	–	–	183
Depreciation	–5,345	–224	–1,809	–	–	–7,378
Exchange-rate differences	–3	–	–	–	–	–3
Closing balance	**9,873**	**579**	**28,395**	**394**	**–**	**39,241**
At December 31, 2011					–	
Cost	33,124	2,804	36,174	394	1,894	74,390
Accumulated depreciation and impairment	–23,251	–2,225	–7,779	–	–1,894	–35,149
Carrying amount	**9,873**	**579**	**28,395**	**394**	**–**	**39,241**
Fiscal year 2012						
Opening balance	9,873	579	28,395	394	–	39,241
Purchases	2,840	–	–	–	–	2,840
Disposals	–600	–	–	–	–	–600
Depreciation	–4,306	–236	–1,809	–	–	–6,351
Exchange-rate differences	–7	–	–	–	–	–7
Closing balance	**7,800**	**343**	**26,586**	**394**	**–**	**35,123**
At December 31, 2012						
Cost	35,964	2,804	36,174	394	1,894	77,230
Accumulated depreciation and impairment	–28,164	–2,461	–9,588	–	–1,894	–42,107
Carrying amount	**7,800**	**343**	**26,586**	**394**	**0**	**35,123**

Leasing expenses amounted to 678 (288) (514) for the leasing of equipment, machinery and computers are included in the statement of operations.

Financial leasing
Tangible fixed assets include leasing objects that the Group has on the basis of financial leasing agreements in the following amounts.

	2012	2011	2010
Cost, capitalized financial leasing	1,894	1,894	1,894
Accumulated depreciation according to plan	–1,894	–1,894	–1,894
Carrying amount	**–**	**–**	**–**

NOTE 8 INTANGIBLE FIXED ASSETS

Group	Goodwill	Acquired R&D	Patents and rights	Distribution rights	Other	Total
Fiscal year 2010						
Opening balance	17,987	427,030	1,619	0	363	446,999
Purchases	–	–	–	–	–	–
Increase through business combinations	–	–	–	–	–	–
Amortization	–	–	–495	–	–145	–640
Impairment	–	–34,894	–	–	–	–34,894
Adjustment of additional purchase price	–308	–	–	–	–	–308
Exchange-rate differences	–	–3,649	–91	–	–	–3,740
Closing carrying amount	**17,679**	**388,487**	**1,033**	**0**	**218**	**407,417**
At December 31, 2010						
Cost	17,987	435,062	13,265	2,707	729	469,750
Accumulated amortization and impairment	–308	–46,575	–12,232	–2,707	–511	–62,333
Carrying amount	**17,679**	**388,487**	**1,033**	**0**	**218**	**407,417**
Fiscal year 2011						
Opening balance	17,679	388,487	1,033	0	218	407,417
Purchases	–	–	–	–	–	–
Increase through business combinations	16,025	–	–	–	–	16,025
Amortization	–	–	–310	–	–146	–456
Impairment	–	–271,238	–	–	–	–271,238
Exchange-rate differences	–256	–639	14	–	–	–881
Closing carrying amount	**33,448**	**116,610**	**737**	**0**	**72**	**150,867**
At December 31, 2011						
Cost	33,448	435,062	13,265	2,707	729	485,211
Accumulated amortization and impairment	–	–318,452	–12,528	–2,707	–657	–334,344
Carrying amount	**33,448**	**116,610**	**737**	**0**	**72**	**150,867**
Fiscal year 2012						
Opening balance	33,448	116,610	737	0	72	150,867
Purchases	–	–	–	–	3,059	3,059
Disposals	–7,042	–	–	–	–	–7,042
Amortization	–	–	–748	–	–72	–820
Impairment	–	–10,159	–	–	–	–10,159
Exchange-rate differences	–579	–251	11	–	–	–819
Closing carrying amount	**25,827**	**106,200**	**0**	**0**	**3,059**	**135,086**
At December 31, 2012						
Cost	33,448	435,062	13,265	2,707	3,788	488,270
Accumulated amortization and impairment	–7,621	–328,862	–13,265	–2,707	–729	–353,184
Carrying amount	**25,827**	**106,200**	**0**	**0**	**3,059**	**135,086**

Goodwill at December 31, 2012

A goodwill item arose following the acquisition of Noster System AB in 2006. It corresponded to a cash-generating unit in Kibion's sale of breath tests for diagnosing the stomach ulcer bacterium Helicobacter pylori.

In August 2011, Orexo's subsidiary Kibion AB acquired the German company Wagner Analysen Technik GmbH. In connection with acquisition, an additional goodwill item arose. Wagner Analysen Technik GmbH is a leading manufacturer of IRIS instruments and substrates for diagnostic breath tests.

Goodwill	2012	2011	2010
Noster System	10,639	10,639	10,639
Prostrakan	0	7,042	7,042
Wagner Analysen Technik	15,188	15,767	–
	25,827	**33,448**	**17,681**

Impairment testing of goodwill

Impairment testing for goodwill is performed annually and when there are indications of an impairment requirement. Recoverable amounts for cash-generating units are determined based on value in use. Impairment testing is applied at the lowest level at which separable cash flows can be identified.

An annual test of the impairment requirement for the goodwill item attributable to the acquisition of Noster System AB has been carried out. Recoverable amounts for the cash-generating operations are calculated based on estimated future cash flows. Cash flow for 2013 is based on budget. Cash flows for the period 2014–2017 are based on Executive Management's forecasts, assessments and market plans. Cash flows beyond this period are extrapolated on the basis of an estimated growth rate of 2.5 percent (2.5), which is based on management's expectations for market development. The assessment of operating margins is based on previously achieved results combined with management's expectations of market trends. Future cash flows were discounted to the present value by applying a rate before tax of 10 percent (12). The estimated value in use exceeds the carrying amount by a comfortable margin.

Impairment testing of the goodwill attributable to the subsidiary acquired during the year, Wagner Analysen Technik GmbH, was carried out. Recoverable amounts for the cash-generating operations are calculated based on estimated future cash flows. Cash flow for 2013 is based on

budget. Cash flows for the period 2014–2017 are based on Executive Management's forecasts, assessments and market plans. Cash flows beyond this period are extrapolated on the basis of an estimated growth rate of 2.5 percent, which is based on management's expectations for market development. The assessment of operating margins is based on previously achieved results combined with management's expectations of market trends. Future cash flows were discounted to the present value by applying a rate before tax of 10 percent. The estimated value in use exceeds the carrying amount.

This discount rate is set based on risk-free interest with an additional risk premium for the business area in question.

The sensitivity of goodwill items to changes in estimated discount rates is low. The discount rate could be raised by 2 percentage points without leading to any impairment requirement for the goodwill items.

Acquired R&D at December 31, 2012

Acquired R&D amounting to 106,200 (116,610) is attributable to the acquisition of Biolipox AB in 2007.

When an acquired R&D project begins to generate sales revenues or royalties, planned amortization begins over the expected useful life. The acquired R&D projects have not yet begun to generate such revenues and thus no amortization was applied.

Impairment testing of Acquired R&D

The value of acquired R&D projects is tested once a year to determine any impairment requirements, and also on other occasions if indications of impairment emerge. As with previous years, the recoverable amount was calculated per acquired R&D project. The calculations were performed on the basis of an assessment of future cash flows, with the key variables comprising license revenues, residual development costs, royalties and gross margins. Future cash flows were adjusted in line with the probability estimate applied as the available industry standard, and subsequently calculated at present value. The present value calculation was performed on the basis of a discount rate, which was set by Executive Management at 10 percent (12) before tax.

Research and drug development are characterized by significant operative risks. The risk that a project will not result in a product that reaches the market diminishes as the project passes through the various phases of the development process. The R&D projects acquired by the company are all in the early phases. If a project is closed down, the result is impairment and removal of the project from the balance sheet. During the year, acquired R&D was impaired by MSEK 10.2.

The sensitivity to changes in certain variables was analyzed to support impairment testing. If the discount rate were to increase by 2 percentage points, the recoverable amounts would continue to exceed the carrying amounts by a healthy margin. If the SEK were to strengthen by 10 percent against the USD and EUR, the recoverable amount of the acquired R&D projects would decline, but not to the extent that any impairment would be required. Regarding the other underlying variables, Executive Management believes that these variables may change within reasonably conceivable limits without the recoverable amount falling below the carrying amount.

Parent Company	**2012**	**2011**	**2010**
Accumulated cost			
Opening cost	9,308	9,308	9,308
Rights acquired during the year	3,059	–	–
Disposals and scrapping	–	–	–
Closing accumulated cost	12,367	9,308	9,308
Accumulated amortization according to plan			
Opening amortization according to plan	–9,236	–9,090	–8,945
Amortization for the year according to plan	–72	–146	–145
Disposals and scrapping	–	–	–
Closing accumulated amortization according to plan	–9,308	–9,236	–9,090
Carrying amount	**3,059**	**72**	**218**

Parent Company intangible assets comprise patents, rights and IT systems.

NOTE 9 DEPRECIATION/AMORTIZATION AND IMPAIRMENT

	Group			**Parent Company**		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Tangible fixed assets						
Sales	115	75	48	–	8	12
Administration	2,119	2,554	2,842	2,119	2,554	2,842
Research and development	4,117	4,749	4,439	4,103	4,679	4,293
Total tangible fixed assets	**6,351**	**7,378**	**7,329**	**6,222**	**7,241**	**7,147**
Intangible assets						
Sales	–	132	303	–	–	–
Administration	72	146	145	72	146	145
Research and development	749	178	193	–	–	–
Other operating expenses	10,159	271,238	25,794	–	–	–
Total intangible assets	**10,980**	**271,694**	**26,435**	**72**	**146**	**145**
Total depreciation/amortization and impairment	**17,331**	**279,072**	**33,764**	**6,294**	**7,387**	**7,292**

NOTE 10 SHARES IN SUBSIDIARIES AND JOINT VENTURES

Holding Dec 31, 2012	Corp.Reg.No.	Reg. office	Number of shares	Shareholding	Cost	Accumulated impairment	Carrying amount
Pharmacall AB	556569-1739	Uppsala	1,000	100%	100	0	100
Kibion AB	556610-9814	Uppsala	321,279	100%	38,172	38,172	0
Noster System AB	556530-9217	Uppsala	606,520	100%	10,600	9,888	712
Biolipox AB	556588-3658	Stockholm	12,883,944	100%	505,773	335,944	169,829
Orexo UK	6619806	UK	1	100%	0	0	0
Pharmakodex Ltd	05268159	UK	684,664	100%	82,245	80,007	2,239
Wagner Analysen Technik GmbH	20929	Germany	6	100%	14,303	0	14,303
Orexo US	0101013414	USA	100	100%	0	0	0

Noster System AB and Wagner Analysen Technik GmbH are indirect holdings.

In 2012, shares in subsidiaries were impaired by MSEK 57.9. This decrease is attributable both to the impairment of shares due to the impairment of the value of acquired technology and to divestment of the ProStrakan AB joint venture.

Change in carrying amount

2010	Opening carrying amount	Cost	Sales	Impairment	Closing carrying amount
Pharmacall AB	100	–	–	–	100
Kibion AB	–	–	–	–	–
Prostrakan AB	18,296	–	–	–	18,296
Biolipox AB	505,773	–	–	–	505,773
Orexo UK	–	–	–	–	–
Pharmakodex Ltd	82,245	–	–	1,651	80,594
Total	**606,414**	**–**	**–**	**1,651**	**604,763**
2011					
Pharmacall AB	100	–	–	–	100
Kibion AB	–	–	–	–	–
Prostrakan AB	18,296	–	–	–	18,296
Biolipox AB	505,773	–	–	335,944	169,829
Orexo UK	–	–	–	–	–
Pharmakodex Ltd	80,594	–	–	38,731	41,863
Total	**604,763**	**–**	**–**	**374,675**	**230,088**
2012					
Pharmacall AB	100	–	–	–	100
Kibion AB	–	–	–	–	–
Prostrakan AB	18,296	–	18,296	–	–
Biolipox AB	169,829	–	–	–	169,829
Orexo UK	–	–	–	–	–
Pharmakodex Ltd	41,863	–	–	39,624	2,239
Total	**230,088**	**–**	**18,296**	**39,624**	**172,168**

NOTE 11 FINANCIAL INSTRUMENTS BY CATEGORY

December 31, 2012	Derivatives used for hedging purposes	Loans and accounts receivable	Other financial liabilities	Total
Assets in the balance sheet				
Accounts receivable and other receivables (excluding interim receivables)		17,549		17,549
Cash and cash equivalents		228,067		228,067
Derivative instruments	18,507			18,507
Total	**18,507**	**245,616**		**264,123**
Liabilities in the balance sheet				
Borrowing (excluding liabilities in respect of financial leasing)			120,642	120,642
Accounts payable and other liabilities (excluding non-financial liabilities)			127,821	127,821
Total			**248,463**	**248,463**

December 31, 2011				
Assets in the balance sheet				
Accounts receivable and other receivables (excluding interim receivables)		56,853		56,853
Cash and cash equivalents		246,859		246,859
Total		**303,712**		**303,712**
Liabilities in the balance sheet				
Borrowing (excluding liabilities in respect of financial leasing)			120,933	120,933
Accounts payable and other liabilities (excluding non-financial liabilities)			52,479	52,479
Total			**173,412**	**173,412**

December 31, 2010				
Assets in the balance sheet				
Accounts receivable and other receivables (excluding interim receivables)		99,211		99,211
Cash and cash equivalents		135,798		135,798
Current investments		–		–
Total		**235,009**		**235,009**
Liabilities in the balance sheet				
Borrowing (excluding liabilities relating to financial leasing)			103,900	103,900
Accounts payable and other liabilities (excluding non-financial liabilities)			103,631	103,631
Liabilities in respect of financial leasing			–	–
Total			**207,531**	**207,531**

NOTE 12 DERIVATE INSTRUMENTS

	Group			Parent Company		
	2012	2011	2010	2012	2011	2010
Currency future contracts – cash flow hedges	18,507	–	–	–	–	–
Total	**18,507**	**–**	**–**	**–**	**–**	**–**

The entire fair value of a derivative instrument that constitutes a hedging instrument is classified as a fixed asset or long-term liability if the remaining term is longer than 12 months and as a current asset or current liability if the hedged item's remaining term is less than 12 months.

The hedged transactions in foreign currency occur in June 2013 and June 2014.

Gains and losses on currency future contracts are recorded in the statement of operations in the period during which the hedged transaction affects the statement of operations.

There is no ineffectiveness to be reported regarding the hedging of net inverstments in foreign business operations.

NOTE 13 INVENTORIES

	Group			Parent Company		
	2012	2011	2010	2012	2011	2010
Raw materials	22,233	18,426	4,067	18,489	15,555	2,529
Finished products	6,085	8,263	3,898	–	–	–
Total	**28,318**	**26,689**	**7,965**	**18,489**	**15,555**	**2,529**

Group
The cost of inventories expensed is included in the item "Cost of goods sold" and "Research and development costs" and amounted to 37,367 (43,116) (35,306). During the year, inventories were impaired in the amount of SEK 0.

Parent Company
The cost of inventories expensed is included in the item "Research and development costs" and amounted to 8,742 (13,603) (6,752).

NOTE 14 ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	Group			Parent Company		
	2012	2011	2010	2012	2011	2010
Accounts receivable	17,549	56,853	99,211	18,058	51,847	46,554
VAT receivable	6,167	8,906	6,458	3,231	1,570	163
Other receivables	4,423	4,784	5,433	26,391	19,622	16,748
Prepaid rents	4,917	5,294	4,922	4,917	5,270	4,918
Other interim receivables	3,600	6,609	3,822	3,045	42,529	65,603
Total	**36,656**	**82,446**	**119,846**	**55,642**	**120,838**	**133,986**

Group
Impairment losses on accounts receivable amounted to 157 (53) (141). There have been no impairments of remaining accounts receivable. The carrying amount corresponds to fair value since all receivables are current and are due within one year.

Parent Company
Impairment losses on accounts receivable amounted to 0 (0) (69). There have been no impairments of remaining accounts receivable. The carrying amount corresponds to fair value.

Carrying amounts per currency for the Group's accounts receivable are as follows:

	Group			Parent Company		
	2012	2011	2010	2012	2011	2010
SEK	3,507	3,026	12,612	15,348	32,511	34,047
USD	1,386	23,263	7,178	592	1,009	–
EUR	12,611	30,032	78,855	2,118	18,327	12,507
Other currencies	45	532	566	–	–	–
Total	**17,549**	**56,853**	**99,211**	**18,058**	**51,847**	**46,554**

Accounts receivable due
At December 31, 2012, accounts receivable amounting to 2,983 (19,149) (10,908) fell due for payment without any impairment requirement being considered necessary. These apply to a few independent customers who have previously settled their overdue invoices. An age analysis of these accounts receivable is presented below:

	Group			Parent Company		
	2012	2011	2010	2012	2011	2010
Less than 43 days	1,268	3,324	9,614	63	814	0
44 days and older	1,715	15,825	1,294	64	–	0
Total	**2,983**	**19,149**	**10,908**	**127**	**814**	**0**

NOTE 15 CASH AND CASH EQUIVALENTS

	Group			Parent Company		
	2012	2011	2010	2012	2011	2010
Cash and bank balances	228,067	246,859	135,798	216,553	227,850	101,400
Total	**228,067**	**246,859**	**135,798**	**216,553**	**227,850**	**101,400**

Credit quality of financial assets
The credit quality of financial assets that have neither fallen due for payment nor are in need of impairment can be assessed by referring to an external credit rating (if available) or to the counterparty's payment history:

	Group			Parent Company		
	2012	2011	2010	2012	2011	2010
A1-	228,067	246,859	135,798	216,553	227,850	101,400
Total bank balances and short-term bank deposits	**228,067**	**246,859**	**135,798**	**216,553**	**227,850**	**101,400**

NOTE 16 SHARE CAPITAL AND OTHER CAPITAL CONTRIBUTIONS

Shares outstanding
As of December 31, 2012, the number of shares outstanding in the company was 29,946,332, of which all were common shares. All shares carry one voting right. The quotient value of each share is 0.4. The change in the number of shares during the year is shown in the table below. All shares issued have been fully paid for. The Parent Company bought back 1,121,124 Orexo shares on Nasdaq OMX Nordic Exchange Stockholm during the period July - September 2012. The total amount that was paid for the shares was MSEK 53. The shares are held as the company's own shares. The Parent Company is entitled to sell these shares at a later point in time. All shares issud by the Parent Company have been fully paid for.

Shares outstanding on December 1, 2010	**23,401,252**
Subscription for shares through exercise of employee stock options	2,500
Shares outstanding on December 1, 2010	**23,403,752**
Subscription for shares through exercise of employee stock options	23,555
New share issue	6,438,188
Shares outstanding on December 1, 2011	**29,865,495**
Subscription for shares through exercise of employee stock options	80,837
Shares outstanding on December 1, 2012	**29,946,332**

During the year 11,250 employee stock options were exercised. These had not yet been registered as shares at the end of the year.

Authorization from the Annual General Meeting
At the Annual General Meeting on April 11, 2012, the Board received authorization to issue new shares against cash payment, through offsetting or by capital contributed in kind. However, such a share issue may not result in the company's registered share capital or number of shares in the company at any given time increasing by more than a total of 10 percent, or result in the company's share capital exceeding the highest share capital permitted at any given time in accordance with the Articles of Association. The authorization has not been utilized.

Development of share capital

Year	Transaction	Change in number of shares	Change in share capital (SEK)	Total number of shares	Total share capital (SEK)	Quotient value (SEK)
1994	Formation of company	500	50,000	500	50,000	100
1996	Bonus issue	500	50,000	1,000	100,000	100
1997	New issue	20	2,000	1,020	102,000	100
1998	Bonus issue	9,180	918,000	10,200	1,020,000	100
2000	New issue	600	60,000	10,800	1,080,000	100
2000	New issue	5,400	540,000	16,200	1,620,000	100
2002	New issue[1]	8,830	883,000	25,030	2,503,000	100
2003	New issue[2]	6	600	25,036	2,503,600	100
2003	New issue[3]	9,242	924,200	34,278	3,427,800	100
2004	New issue[4]	2,298	229,800	36,576	3,657,600	100
2004	New issue[5]	376	37,600	36,952	3,695,200	100
2005	Nyemission[6]	1,337	133,700	38,289	3,828,900	100
2005	Share split [7]	9,533,961	–	9,572,250	3,828,900	0.4
2005	New issue[8]	3,700,000	1,480,000	13,272,250	5,308,900	0.4
2005	New issue[9]	20,250	8,100	13,292,500	5,317,000	0.4
2006	New issue[10]	592,250	236,900	13,884,750	5,553,900	0.4
2007	New issue[11]	101,750	40,700	13,986,500	5,594,600	0.4
2007	New issue[12]	7,630,895	3,052,358	21,617,395	8,646,958	0.4
2009	New issue[13]	6,084	2,434	21,623,479	8,649,392	0.4
2009	New issue[14]	1,777,773	711,109	23,401,252	9,360,500	0.4
2010	New issue[15]	2,500	1,000	23,403,752	9,361,500	0.4
2011	New issue[16]	23,555	9,422	23,427,307	9,370,922	0.4
2011	New issue[17]	6,438,188	2,575,275	29,865,495	11,946,197	0.4
2012	New issue[18]	80,837	32,335	29,946,332	11,978,532	0.4

1 New issue of preference shares of series P1 directed to HealthCap in connection with their initial investment in the company, at a subscription price of SEK 4,530 per share pursuant to a resolution by an Extraordinary General Meeting of Shareholders held on April 11, 2002.
2 New issue of shares through the exercise of warrants at a subscription price of SEK 6,800 per share.
3 New issue of 6,365 preference shares of series P1 and 2,877 common shares in connection with the acquisition of CePeP against contribution in the form of shares in CePeP pursuant to a resolution by an Extraordinary General Meeting of Shareholders held on August 27, 2003.
4 New issue of preference shares of series P2 to the Principal Shareholders against set off of claims under a credit facility agreement and to Catella Fokus pursuant to a resolution of the Board of Directors on August 5, 2004. The subscription price was SEK 19,611.4 per share.
5 New issue of preference shares of series P2 to shareholders and directors wishing to subscribe for shares on the same terms as Catella Fokus and the main shareholders pursuant to a resolution of the Board of Director on August 31, 2004..
6 New issue of shares through the exercise of warrants at a subscription price of SEK 100 per share. The warrants were issued together with shares issued under Note 4 and 5 as units.
7 The 250:1 share split was adopted by the Annual General Meeting held on April 20, 2005, and was implemented in connection with the listing in November 2005.
8 New issue implemented in connection with the listing in November 2005.
9 New issue of 9,750 shares through issue of 39 warrants at a subscription price of SEK 9.20 per share and new issue of 10,500 shares through the exercise of 42 warrants at a subscription price of SEK 12.70 per share.
10 New issue of 269,000 shares through exercise of 1,076 employee stock options, new issue of 281,500 shares through exercise of 1,126 warrants and new issue of 41,750 shares through the exercise of 167 hedge options.
11 New issue of 42,500 shares through the exercise of 170 employee stock options and a new issue of 59,250 shares through the exercise of 237 warrants.
12 New issue in connection with the acquisition of Biolipox AB in November 2007.
13 New issue of 5,750 shares through the exercise of 23 warrants and new issue of 334 shares through the exercise of 334 warrants.
14 New issue in connection with the acquisition of PharmaKodex Ltd.
15 New issue of 2,500 share through the exercise of 10 employee stock options.
16 New issue of 23,555 shares through the exercise of 23,555 employee stock options.
17 New issue of 6,438,188 shares at a subscription price of SEK 38 per share. One share in Orexo provides entitlement to one subscription right, four subscription rights provide enti-tlement to subscription for one new share.
18 New issue of 80,837 shares through the exercise of 80,837 employee stock options

Share-based payments

Orexo has introduced share-based payments in the form of employee stock options and warrants designed to motivate and reward through ownership, thereby promoting the company's long-term interests. Since 2002, a total of just over 100 people have participated in the incentive programs of the Group companies (Orexo AB and Biolipox AB).

Ownership rights to the warrants have been transferred on commercial terms to employees or other participants in the incentive program directly through allotment, while the stock options are vested in the form of one-third, one-fourth or one-fifth of the number of allotted options on each of the first three, four or five anniversary dates of the allotment date, provided that the holder remains employed or is a Board member in Orexo on this date.

At December 31, 2011, there were a total of 2,245,927 options outstanding, providing an entitlement to subscription of 2,241,624 new shares in Orexo and the exchange of 4,303 options against shares in Orexo[1)]. Each option issued by Biolipox AB provides entitlement to exchange it for one share in Orexo AB and a corresponding number of shares are held by the independent company Pyrinox AB.

The table below shows a summary of the changes in the number of options outstanding during the period January 1, 2012 to December 31, 2012, split across each category.

	Opening Jan 1, 2012	Change	Closing Dec 31, 2012	Redeemable
Options directed at employees				
Of which:				
Approved and allotted employee stock options	1,466,416		1,466,416	
Exercised		–48,500	–48,500	
Forfeited		–156,750	–156,750	
Allotted		235,000	235,000	
Total			**1,496,166**	**521,166**
Approved and allotted Board stock options	61,006		61,006	
Allotted		270,000	270,000	
Exercised		–42,921	–42,921	
Total			**288,085**	**13,967**
Approved and allotted warrants	10,000		10,000	
Total			**10,000**	**10,000**
Approved, unallotted employee stock options[2)]	565,000	–235,000	330,000	
Total			**330,000**	
Warrants held by subsidiaries for cash flow hedging of social security fees	78,000		78,000	
Total			**78,000**	**78,000**
Total options directed at employees	**2,180,422**	**21,829**	**2,202,251**	
Employee stock options utilized from Biolipox (non-diluting, included in newly issued shares in conjunction with acquisition of Biolipox)	74,943		74,943	
Forfeited		–114	–114	
Exercised		–70,526	–70,526	
Warrants utilized from Biolipox for cash flow hedging of social security fees (non-diluting)	44,173	–4,800	39,373	
Total options from Biolipox	**119,116**	**–75,440**	**43,676**	**43,676**
Total outstanding options	**2,299,538**	**–53,611**	**2,245,927**	

The average exercise price during the year was SEK 4,96 per share.

[1] All information regarding options issued by Orexo AB has been restated to take into account the 1:250 share split conducted in November 2005. The 2005 Annual Report states that older option certificates provide entitlement to subscribe for 250 shares after the split. The reported data regarding options issued by Orexo AB refer to the number of shares to which each option provides entitlement to subscribe for shares following the share split. All data regarding options issued by Biolipox AB are restated using a factor of 0.45854, which corresponds to the computed value of the options related to the share price for the Orexo share on the acquisition date. The reported data regarding the options issued by Biolipox refers to the number of shares for which each option may be exchanged after recalculation.

[2] These options were approved at the General Meeting held in February 2011, but have not yet been allotted.

Average subscription price per category

Category	Outstanding, Jan 1, 2012	Additional	Allotted	Redeemed	Forfeited	Outstanding, Dec 31, 2012	Redeemable
Employee stock options [1], Orexo AB	45.6	–	25.84	15.84	55.04	42.46	51.61
Board options, Orexo AB	0.4	0.4	0.4	0.4	–	0.4	0.4
Warrants, Orexo AB	12.7	–	–	–	–	12.7	12.7
Hedge options, Orexo AB	9.2	–	–	–	–	9.2	9.2
Employee stock options, Biolipox AB	0.25	–	–	0.25	0.25	0.25	0.25
Hedge options, Biolipox AB	0.25	–	–	0.25	–	0.25	0.25

[1] In calculating the average exercise price, options not yet allotted have not been included as no exercise price for these has been set. 330,000 options relate to the 2011/2021 program, see the preceding table.

During the period January–December 2012, 48,500 employee stock options from Orexo's options programs were exercised. During the same period, 70,526 of Biolipox's employee share options were exercised, entailing that the holders exchanged their options for 70,526 Orexo shares, which had been held by the independent company Pyrinox AB. The exercise of options did not require the issue of additional shares by Orexo.

Allotment during the year

235,000 performance shares were allotted during 2012. Of these performance shares, 165,000 were allotted free of charge in February 2012 and 70,000 performance shares were allotted free of charge in March 2012. Of these performance shares, 117,500 are time based and 117,500 are share price based performance shares. The exercise price for the performance shares that were allotted in February was set at SEK 25.60 and the exercise price for the performance shares that were allotted in March was set at SEK 26.40. The final date for exercising the options is December 31, 2021.

The market value of the time based portion of the shares was determined using the Black&Scholes method, while a Monte Carlo simulation was used for the share price based portion. The market value of the options allotted in February is SEK 8.23 for the time based portion and SEK 6.15 for the share price based portion. For the options allotted in March, the market value is SEK 8.23 for the time based portion and SEK 6.15 for the share price based portion.

- risk-free rate of interest: 0.89–1.07 percent
- expected volatility: 35 percent
- estimated dividend: SEK 0

Performance criterion 1

For any vesting of Share Price Based Performance Shares to occur, the increase in the Share Price shall correspond to the amounts set forth below. The increase in the Share Price as set forth below shall be calculated for a period not exceeding five years, meaning that the Share Price must have been achieved within a continuous five-year period.

Increase in Share Price	Vesting percentage of Share Price Vested Performance Shares (also conditional upon the fulfillment of Performance Criterion 2 below)
> 60 percent	33 percent
> 100 percent	66 percent
> 150 percent	100 percent

These categories correspond to a five-year average return performance of approximately 10 percent, 15 percent and 20 per cent per annum, respectively.

Performance criterion 2

In addition to satisfaction of Performance Criterion 1, for any vesting to occur the Share Price shall have outperformed the NASDAQ OMX Stockholm Biotechnology PI Index for a 90 day period immediately prior to such day when Performance Criterion 1 above is satisfied. The determination of satisfaction of Performance Criterion 2 shall be made continuously as long as Performance Criterion 1 is satisfied, where the above-mentioned 90 day period shall be the period immediately prior to each such determination.

The Board shall be entitled to determine that Performance Shares have not been vested to the extent that it has been established that vesting has occurred on the basis of manifestly misstated information.

The 2012/2017 Board shareholder program was adopted in 2012. As a result of the successful acquisition of the American rights for Abstral and the continued development program process for Zubsolv, Orexo has created the foundation for establishing a successful commercial presence in the USA. In order to succeed in this work in the best possible way, it is considered necessary to tie the members of the Board closer to the company. In order to compensate, remunerate and motivate the members of the Board to assist through the extra work that this work for change involves, it was decided to adopt this Board shareholder program.

In August 270,000 Board options were allotted free of charge. These were allotted to independent members of the Board. A condition for entitlement to acquire new shares through the exercise of performance shares is that certain vesting conditions are fulfilled. The exercise price for these has been set at SEK 36.30. The final date for exercising the options is December 31, 2017.

Forfeited options during the year

During the year, the Board resolved to forfeit options and deregister warrants at the Swedish Companies Registration Office that provided entitlement to 156,750 shares, which reduces the dilution in conjunction with full exercise of all outstanding warrants by about 0.5 percentage points. The forfeited options refer to non-vested options to employees who terminated their employment and will thus be unable to exercise them. During 2012, 114 of Biolipox's employee stock options were also forfeited, which also involved non-vested options to employees who had terminated their employment and were thus unable to exercise the options.

Allotment of options 2002–2012 – distribution by employee category

The total allotment within Orexo's employee stock options program for the years 2002–2012 (including options allotted within Biolipox ahead of its acquisition), for subscription for a total of 1,788,554 shares, is distributed as follows:

- Board members: 288,085 shares, for which subscription has been made for 0 shares.
- President/CEO: 500,000 shares, for which subscription has been made for 0 shares (President/CEO at the end of 2012).
- Other senior executives: 617,500 shares, for which subscription has been made for 0 shares.
- Other employees: 1,167,106 shares, for which subscription has been made for 784,137 shares.

Allotment of warrants for the period 2002–2012, providing entitlement to a total of 376,250 shares, is distributed as follows:

- Board members: 139,500 shares, for which subscription has been made for all shares.
- President/CEO: 164,250 shares, for which subscription has been made for all shares.
- Other senior executives: 0 shares.
- Other employees: 72,500 shares, for which subscription has been made for 57,250 shares.

Costs related to company option programs

The company's expenses for the employee stock option program for the full-year 2012 amounted to MSEK 9.3 (3.1). Of these expenses, MSEK 5.3 (2.7) is attributable to the CEO and other administrative personnel, MSEK 2.9 (0.2) to research and development personnel and MSEK 1.1 (0.2) to sales-related personnel.

The expenses for the programs pertain both to estimated costs for the value of the employee vesting during the period, marked-to-market at the time of allotment, as well as the vested portion during the period of the estimated payroll overhead on the changes in value. The company will need to pay social security fees on the gain that may arise in conjunction with the exercise of employee stock options, calculated as the difference between the exercise price of the stock option and the market value of the share.

The social security fees that could arise as a result of the employee stock option program have financially and, thus, for cash flow purposes, largely been hedged through the issue of warrants to one of Orexo's subsidiaries. This hedging does not qualify for hedge accounting in accordance with IFRS.

Detailed description of changes during the year

The table below provides a detailed description of Orexo's share-based incentive program in respect of changes during the year, subscription prices, lifetimes and potential dilution.

Type of security	Number of shares to which securities provide entitlement at Jan 1, 2012[1]	Supplement during the year	Allotment during the year	Redeemed during the year	Forfeited during the year	Number of shares to which securities provide entitlement at Dec 31, 2012	Sub-scription price (SEK)	Program runs until	Number of shares and voting rights[2]
Approved and allotted options									
Employee stock options 2002	38,000	–	–	–38,000	–	0	9.2	Dec 31, 2012	
Employee stock options 2003	2,500	–	–	–2,500	–	0	12.7	Dec 31, 2013	
Employee stock options 2004	62,500	–	–	–	–	62,500	18.1	Jun 6, 2014	
Employee stock options 2005:I	6,750	–	–	–	–	6,750	18.1	Dec 31, 2013	
Employee stock options 2005/2006[3]	39,100	–	–	–	–6,000	33,100	113	Dec 31, 2015	
Employee stock options 2006/20164[4]	53,275	–	–	–	–9,500	43,775	119	Dec 31, 2016	
Employee stock options 2007/2017	125,666	–	–	–3,000	–32,000	90,666	44	Dec 31, 2017	
Board stock options 2008/2015	11,221	–	–	–8,268	–	2,953	0.4	Dec 31, 2015	
Employee stock options 2008/2018	163,625	–	–	–5,000	–59,250	99,375	51	Dec 31, 2018	
Board stock options 2009/2016	16,186	–	–	–11,927	–	4,259	0.4	Dec 31, 2016	
Board stock options 2010/2017	18,958	–	–	–12,203	–	6,755	0.4	Dec 31, 2017	
Board stock options 2011/2018	14,641	–	–	–10,523	–	4,118	0.4	Dec 31, 2018	
Subscription options	**10,000**	**–**	**–**	**–**	**–**	**10,0000**	**12.7**	Dec 31, 2013	
Performance-based incentive program 2011/2021	500,000	–	–	–	–	500,000	44.4	Dec 31, 2021	
Performance-based incentive program 2011/2021	245,000	–	–	–	–50,000	195,000	47.8	Dec 31, 2021	
Performance-based incentive program 2011/2021	230,000	–	–	–	–	230,000	29	Dec 31, 2021	
Performance-based incentive program 2011/2021	–	–	165,000	–	–	165,000	25.6	Dec 31, 2021	
Performance-based incentive program 2011/2021	–	–	70,000	–	–	70,000	26.4	Dec 31, 2021	
Board stock options 2012/2017	–	270,000	–	–	–	270,000	0.4	Dec 31, 2017	
Subtotal	**1,537,422**	**270,000**	**235,000**	**–91,421**	**–156,750**	**1,794,251**			
Approved, unallotted options									
Performance-based incentive program 2011/2021	565,000	–	–235,000	–	–	330,000	–	Dec 31, 2021	
Hedge options intended for hedging employee stock options[5]	78,000	–	–	–	–	78,000	9.2	Dec 31, 2012	
Subtotal	**2,180,422**	**270,000**	**–**	**–91,421**	**–156,750**	**2,202,251**			
Options attributable to the acquisition of Biolipox									
Employee stock options BX OP V	1,033	–	–	–459	–	574	0.25	Dec 31, 2014	Undiluted
Employee stock options BX OP VII	59,120	–	–	–59,120	–	–	0.25	Dec 31, 2015	Undiluted
Employee stock options BX OP VIII	12,040	–	–	–9,401	–	2,639	0.25	Dec 31, 2015	Undiluted
Employee stock options BX OP IX	2,750	–	–	–1,546	–114	1,090	0.25	Dec 31, 2016	Undiluted
Hedge options	44,173	–	–	–4,800	–	39,373	0.25	Dec 31, 2016	Undiluted
Subtotal	**119,116**	**–**	**–**	**–75,326**	**–114**	**43,676**			
Total number of securities in share-based incentive programs	**2,299,538**	**270,000**	**–**	**–166,747**	**–156,864**	**2,245,927**			

1 The number of shares after the 250:1 share split conducted in November 2005.
2 After full dilution through the exercise of warrants.
3 Options corresponding to subscription for 66,950 shares from this program were transferred to the Employee stock options 2006/2016 program.
4 Options corresponding to subscription for 66,950 shares to this program were transferred from the Employee stock options 2005/2006 program.
5 Warrants held by Orexo's subsidiary Pharmacall AB and which are designed for the cash flow hedging of social security fees that may arise as a result of the employee stock option program.

Changes in number of outstanding options in 2011

	Opening Jan 1, 2011	Change	Utgående 31/12 2011	Inlösningsbara
Options directed at employees				
Of which:				
Approved and allotted employee stock options	719,566		719,566	
Exercised		–9,000	–9,000	
Forfeited		–219,150	–219,150	
Allotted		975,000	975,000	
Total			**1,466,416**	**436,874**
Approved and allotted Board stock options	60,920		60,920	
Allotted May 2011		14,641	14,641	
Exercised		–14,555	–14,555	
Total			**61,006**	**27,407**
Approved and allotted warrants	10,000		10,000	
Total			**10,000**	**10,000**
Approved, but not allotted stock options	470,000	–470,000	0	
Approved at Extraordinary General Meeting 2011[2]		565,000	565,000	
Total			**565,000**	**–**
Warrants held by subsidiaries for cash flow hedging of social security fees	78,000		78,000	
Total			**78,000**	**78,000**
Total options directed at employees	**1,338,486**	**841,936**	**2,180,422**	
Employee stock options utilized from Biolipox (non-diluting included in newly issued shares in conjunction with acquisition of Biolipox)	117,582		117,582	
Forfeited		–8,651	–8,651	
Exercised		–33,988	–33,988	
Warrants utilized from Biolipox for cash flow hedging of social security fees (non-diluting)	61,873	–17,700	44,173	
Total options from Biolipox	**179,455**	**–60,339**	**119,116**	**119,116**
Total options directed at employees	**1,517,941**	**781,597**	**2,299,538**	

[1] All information regarding options issued by Orexo AB has been restated to take into account the 1:250 share split conducted in November 2005. The 2005 Annual Report states that older option certificates provide entitlement to subscribe for 250 shares after the split. The reported data regarding options issued by Orexo AB refer to the number of shares to which each option provides entitlement to subscribe for shares following the share split. All data regarding options issued by Biolipox AB are restated using a factor of 0.45854, which corresponds to the computed value of the options related to the share price for the Orexo share on the acquisition date. The reported data regarding the options issued by Biolipox refers to the number of shares for which each option may be exchanged after recalculation.

[2] These options were approved at the General Meeting held in February 2011, but have not yet been allotted.

Exercised during the year

For the period January–December 2011, 23,555 employee stock options from Orexo's options programs were exercised. During the period January–December 2011, 33,988 of Biolipox's employee stock options were also exercised, whereby the holders exchanged their options for 33,988 Orexo shares, which had been held by the independent company Pyrinox AB. The exercise of options did not require Orexo to issue additional shares.

Allotment during the year

In 2011, Orexo introduced a performance-based, long-term incentive program which, prior to exercise, includes performance shares providing entitlement to subscribe for a total of 1,540,000 shares in Orexo. The right to acquire new shares through exercise of performance shares shall, for each employee, be subject to vesting criteria. Of the total number of performance shares allotted, 50 percent of the performance shares shall be vested according to time and internal operational criteria ("time based performance shares") and 50 percent shall be vested according to share price performance and relative share performance ("share price based performance shares"). Of these performance shares, 500,000 were allotted free of charge to the President in March 2011, 245,000 performance shares were allotted free of charge to senior managers in April 2011 and 230,000 performance shares were allotted to senior executives in October 2011. Of these performance shares, 487,500 are time based and 487,500 are share price based. Issue price for the performance shares allotted in March was established at SEK 44.40, the issue price for the performance shares issued in April was established at SEK 47.80 and the issue price for the performance shares issued in October was established at SEK 29. The final exercise date for the options is December 31, 2021.

The market value of the time based portion of the shares was determined using the Black&Scholes method, while a Monte Carlo simulation was used for the share price based portion. The market value of the options allotted in March is SEK 20.25 for the time based portion and SEK 13.37 for the share price based portion. For the options allotted in April, the market value is SEK 19.19 for the time based portion and SEK 12.41 for the share price based portion and, for the options allotted in October, the market value is SEK 8.23 for the time based portion and SEK 6.15 for the share price based portion.

- risk-free rate of interest: 1.11–1.35 percent
- expected volatility: 35 percent
- estimated dividend: SEK 0

Performance criterion 1

For any vesting of Share price Vested Performance Shares to occur, the increase in the Share Price shall correspond to the amounts set forth below. The increase in the Share Price as set forth below shall be calculated for a period not exceeding five years, meaning that the Share Price must have been achieved within a continuous five-year period.

Increase in Share Price	Vesting percentage of Share price Based Performance Shares (also conditional upon the fulfilment of Performance Criterion 2 below)
> 60 percent	33 percent
> 100 percent	66 percent
> 150 percent	100 percent

These categories correspond to a five-year average return performance of approximately 10 percent, 15 percent and 20 per cent per annum, respectively.

Performance criterion 2

In addition to satisfaction of Performance Criterion 1, for any vesting to occur the Share Price shall have outperformed the NASDAQ OMX Stockholm Biotechnology PI Index for a 90 day period immediately prior to such day when Performance Criterion 1 above is satisfied. The determination of satisfaction of Performance Criterion 2 shall be made continuously as long as Performance Criterion 1 is satisfied, where the above-mentioned 90 day period shall be the period immediately prior to each such determination.

The Board shall have the possibility to determine that Performance Shares have not been vested to the extent that it has been established that vesting has occurred on the basis of manifestly misstated information.

In May 2011, 14,641 Board options were allotted, providing entitlement to a total of 14,641 shares in Orexo. These Board options have been allotted free of charge to Board members elected at the 2011 Annual General Meeting. Vesting takes the form of one fourth on the date after the publication of Orexo's interim report for Q1 and one fourth after the publication of the interim reports for each of the quarters from Q2 to Q4 during the mandate period for the 2011 fiscal year. Board members' right to request exercise comes into effect from two years after the 2011 Annual General Meeting onwards. The final exercise date for Board options is December 31, 2018 and the subscription price amounts to SEK 0.40 per share. The market value, computed using the Black & Scholes method, totaled SEK 43.33 per option on the allotment date. Volatility is based on the estimated future volatility of the share at the valuation date using the historical volatility of the company and other companies with similar operations as a basis.

- share price: 43.70 SEK
- lifetime: 7 years
- exercise price on subscription: SEK 0.40
- risk-free rate of interest: 1.52 percent
- expected volatility: 35 percent
- estimated dividend: SEK 0

Changes in number of outstanding options in 2010

	Opening Jan 1, 2010	Change	Closing Dec 31, 2010	Redeemable
Options directed at employees				
Of which:				
Approved and allotted employee stock options	876,316		876,316	
Exercised		–2,500	–2,500	
Forfeited		–154,250	–154,250	
Total			**719,566**	**468,613**
Approved and allotted Board stock options	35,207		35,207	
Allotted May 2010		25,713	25,713	
Total			**60,920**	**12,845**
Approved and allotted warrants	10,000		10,000	
Total			**10,000**	**10,000**
Approved, but not allotted stock options	470,000		470,000	
Total			**470,000**	**–**
Warrants held by subsidiaries for cash flow hedging of social security fees	78,000		78,000	
Total			**78,000**	**78,000**
Total options directed at employees	**1,469,523**	**–131,037**	**1,338,486**	**569,458**
Employee stock options utilized from Biolipox (non-diluting included in newly issued shares in conjunction with acquisition of Biolipox)	196,107		196,107	
Forfeited		–9,454	–9,454	
Exercised		–69,071	–69,071	
Warrants utilized from Biolipox for cash flow hedging of social security fees (non-diluting)	80,323	–18,450	61,873	
Total options from Biolipox	**276,430**	**–96,975**	**179,455**	**173,668**
Total options directed at employees	**1,745,953**	**–228,012**	**1,517,941**	**743,126**
Other options				
Warrants constituting supplementary purchase consideration for the acquisition of Biolipox AB	926,000	–926,000	–	
Total outstanding options	**2,671,953**	**1,154,012**	**1,517,941**	**743,126**

Exercised during the year

For the January–December 2010 period, 2,500 employee stock options from Orexo's options programs were exercised. Also in January–December 2010, 69,071 of Biolipox's employee stock options were exercised, entailing that the holders exchanged their options for 69,071 Orexo shares, which had been held by the independent company Pyrinox AB. The exercise of options did not require Orexo to issue additional shares.

Allotment during the year

In May 2010, 25,713 Board options were allotted, providing entitlement to a total of 25,713 shares in Orexo. These Board options were allotted free of charge to Board members elected at the 2010 Annual General Meeting. Vesting takes the form of one-fourth on the day after the publication of Orexo's interim report for Q1 and one fourth after the publication of the interim reports for each of the quarters from Q2 to Q4 during the mandate period for the 2009 fiscal year. The Board members' right to request exercise comes into effect from two years after the 2010 Annual General Meeting onwards. The final exercise date for Board shares is December 31, 2017 and the subscription price amounts to SEK 0.40 per share. The market value, computed using the Black & Scholes method, totaled SEK 37.86. Volatility is based on the estimated future volatility of the share at the valuation date using the historical volatility of the company and other companies with similar operations as a basis.

- share price: SEK 38.20
- lifetime: seven years
- exercise price on subscription: SEK 0.40
- risk-free rate of interest: 1.52 percent
- expected volatility: 35 percent
- estimated dividend: SEK 0

NOTE 17 RESERVES

	Translation reserve	Total
Opening balance at January 1, 2010	**–5,245**	**–5,245**
Exchange rate differences	–3,524	–3,524
Opening balance at January 1, 2011	**–8,769**	**–8,769**
Exchange rate differences	–671	–671
Opening balance at January 1, 2012	**–9,440**	**–9,440**
Exchange rate differences	–545	–545
Cash flow hedge	18,507	18,507
Tax, cash flow hedge	–4,071	–4,071
Buyback of company's own shares	–53,004	–53,004
Closing balance at December 31, 2012	**–48,553**	**–48,553**

NOTE 18 PROVISIONS

	Group			Parent Company		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Estimated costs, social security fees, employee stock options	3,997	565	1,112	3,997	565	1,135
Total	**3,997**	**565**	**1,112**	**3,997**	**565**	**1,135**

Provisions primarily refer to estimated costs for social security fees in respect of employee stock option programs, which have been recognized in accordance with UFR 7. The long-term portion of social security fees is recognized as provisions, the remaining portion recognized as a current liability.

NOTE 19 BORROWING

	Group			Parent Company		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Bank loan, long-term portion	10,248	10,456	–	–	–	–
Convertible promissory notes	103,324	99,839	94,421	103,324	90,947	84,942
Total	**113,572**	**110,295**	**94,421**	**103,324**	**90,947**	**84,942**

	Group			Parent Company		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Bank loan, long-term portion	2,247	1,746	–	–	–	–
Convertible promissory notes	8,892	8,892	9,479	8,892	8,892	9,479
Total	**11,139**	**10,638**	**9,479**	**8,892**	**8,892**	**9,479**

The bank loan is the subsidiary Kibion AB's financing of the acquisition of Wagner Analysen Technik GmbH. The term of the bank loan ends on June 30, 2016 and the average interest rate is 3.5 percent per year. Collateral for the bank loan comprises a guarantee from the Parent Company amounting to MSEK 8.4, see Note 21. There are no covenants in the terms of lending or the Pararent Company guarantee.

The convertible issue was recognized in the liability and shareholders' equity portions, based on the fair value of the liability portion, with the division of both components being based on a commercial rate of interest amounting to 10.5 percent.

Attributable transaction costs were distributed proportionally on both these components in relation to the distribution of the issue liquidity.

The convertible loan has a conversion price of SEK 47.50, which represents a premium of about 25 percent compared with the closing price on March 12, 2010 of SEK 37.90 and is allied with an option that entitles Orexo AB to convert the loan when the share price exceeds the conversion price by 50 percent during a specific period of time. This is on condition that it does not lead to the holder of the convertible bond thereby being obliged to make a mandatory bid for the remaining shares. The convertible loan has an annual interest rate of 8 percent. If the loan is not converted to shares, it must be repaid no later than March 31, 2015.

Convertible promissory notes are recognized in the balance sheet in accordance with the following:

Nominal value of convertible promissory notes issued April 7, 2010	**111,150**
Shareholders' equity portion	–10,005
Liability portion at issue April 7, 2010	95,167
Interest expense	8,733
Interest paid	–
Liability portion at December 31, 2010	**103,900**
Interest expense	11,774
Interest paid	–6,943
Liability portion at December 31, 2011	**108,731**
Interest expense	11,963
Interest paid	–8,479
Liability portion at December 31, 2012	**112,215**

The fair value of the liability portion of the convertible bonds as of December 31, 2012 amounted to 112,215.

NOTE 20 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	Group			Parent Company		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Accounts payable	19,790	27,323	25,478	18,908	21,108	21,147
VAT liability	–	129	225	–	–	–
Employee withholding tax	2,174	2,533	2,032	2,003	2,335	1,822
Deduction, social security fees	3,663	2,106	1,691	3,505	1,874	1,528
Deduction, special salary tax	3,491	3,251	3,612	3,229	2,993	3,089
Other current liabilities	12,203	15,247	11,562	113,318	116,273	134,957
Accrued salaries	7,377	3,479	5,910	7,377	2,828	5,629
Accrued vacation pay	8,336	8,352	7,121	7,529	7,553	6,648
Accrued social security fees	3,804	3,843	4,226	3,550	3,365	3,989
Other interim liabilities	9,408	51,852	78,153	8,162	42,431	69,571
Deferred income	98,675	0	0	98,675	0	0
Total	**168,921**	**118,115**	**140,010**	**266,256**	**200,760**	**248,380**

NOTE 21 PLEDGED ASSETS

	Group			Parent Company		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Chattel mortgages for overdraft facility	44,000	44,000	44,000	44,000	44,000	44,000
Pledging of all shares in Kibion AB	12,518	12,513	12,380	–	–	–
Total	**56,518**	**56,513**	**56,380**	**44,000**	**44,000**	**44,000**

NOTE 22 CONTINGENT LIABILITIES

	Group			Parent Company		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Capital adequacy guarantee, Pharmacall AB	–	–	–	–	–	1,000
Capital adequacy guarantee, Kibion AB	–	–	–	–	–	5,000
Guarantee, Swedish Customs	–	–	50	–	–	50
Supplementary purchase consideration, Inflazyme	44,020	45,503	45,679	–	–	–
Guarantee commitment	–	–	–	8,367	11,295	–
Total	**44,020**	**45,503**	**45,729**	**8,367**	**–**	**6,050**

In conjunction with the acquisition of Inflazyme, an additional purchase price was agreed that would be conditional on certain goals being achieved. This additional purchase price was initially recognized as a provision and contingent liability, as the latter was not deemed to be a likely payment in view of the development statistics for the drug. In 2010, the Inflazyme project was downgraded, which means that the full additional purchase price is now recognized as a contingent liability amounting to MSEK 44.0.

As cash flow hedging for social security fees in respect of employee stock options issued by Biolipox, warrants were issued to Pyrinox AB. Orexo has pledged to cover any deficits over and above that covered by the warrants for the duration until December 31, 2016.

The acquisition of the UK pharmaceutical company PharmaKodex includes conditional payments based on license revenues from PharmaKodex's current programs and technologies as well as certain milestone payments. These are not recognized as a liability since it is not probable that any payment will be made.

Orexo has collateral with Nordea comprising chattel mortgages of MSEK 44 and the pledging of all shares in Kibion AB.

NOTE 23 DISTRIBUTION OF REVENUES

	Group			Parent Company		
	2012	2011	2010	2012	2011	2010
Sales, products	56,301	59,771	52,110	–	278	–
Royalties	181,466	72,568	43,492	181,466	72,568	43,492
License revenues	29,263	33,012	81,144	29,263	33,012	7,557
Partner-financed R&D costs	23,848	35,148	33,834	13,060	7,406	61,902
Other	35,400	–885	–81	48,237	27,508	–
Total	**326,278**	**199,614**	**210,499**	**272,026**	**140,772**	**112,951**

NOTE 24 COSTS BY TYPE OF COST

	Group			Parent Company		
	2012	2011	2010	2012	2011	2010
Raw materials and consumables	37,367	43,116	35,306	8,742	13,603	6,752
Other external costs	221,659	160,005	110,632	244,558	158,445	104,574
Personnel costs	138,057	117,605	120,315	120,758	103,527	106,261
Depreciation/amortization and impairment	17,331	279,072	33,764	16,453	46,117	8,944
Total	**414,414**	**599,798**	**300,017**	**390,511**	**321,692**	**226,531**

During the year, acquired R&D projects were impaired by 10,159.

NOTE 25 AUDITORS' FEES

	Group			Parent Company		
	2012	2011	2010	2012	2011	2010
Audit assignment						
PWC	1,127	970	658	1,078	847	530
Silver Levene	128	114	147	–	–	–
Non-auditing assignments						
PWC	380	658	420	380	658	420
Tax advice						
PWC	293	387	291	293	387	291
Deloitte	–	–	84	–	–	–
Other services						
PWC	296	327	260	296	166	254
Total	**2,224**	**2,456**	**1,860**	**2,047**	**2,058**	**1,495**

NOTE 26 EXCHANGE RATE DIFFERENCES

The statement of operations includes exchange-rate differences on operating receivables and operating liabilities as follows:

	Group			Parent Company		
	2012	2011	2010	2012	2011	2010
Other operating income	4,131	6,233	7,746	762	1,597	4,136
Other operating expenses	–5,160	–5,485	–4,741	–1,965	–1,454	–1,347
Total	**–1,029**	**748**	**3,005**	**–1,203**	**143**	**2,789**

NOTE 27 FINANCIAL INCOME AND EXPENSES

	Group			Parent Company		
	2012	2011	2010	2012	2011	2010
Interest expense						
Bank loans	–285	–177	–196	–	–	–196
Convertible bond	–11,963	–11,774	–8,733	–11,963	–11,774	–8,733
Group	–	–	–	–1,311	–2,231	–456
Other	–22	–231	–14	–14	–177	–14
Interest income						
Bank	4,120	4,278	551	3,973	3,488	436
Group	–	–	–	299	267	70
Other	–27	125	–	2	4	–
Financial expenses					–	
Impairment of shares in subsidiaries	–	–	–	–29,136	–255,944	–
Sale of joint venture	–	–	–	–3,920	–	–
Other	–	–138	–295	–	–	–295
Financial income						
Exchange-rate gain, Inflazyne provision	–	–	1,201	–	–	–
Sale of joint venture	9	–	–	9	–	–
Total	**–8,168**	**–7,917**	**–7,486**	**-42,070**	**–266,367**	**–9,188**

Financial expenses in the Parent Company are attributable to the sale of shares when the joint venture ProStrakan AB was sold and to the impairment of shares in the subsidiary Pharmakodex Ltd.

NOTE 28 REMUNERATION TO EMPLOYEES

Average number of employees

Group	2012 Average number of employees	Of whom men	2011 Average number of employees	Of whom men	2010 Average number of employees	Of whom men
	111	46	110	43	105	39
Total for Group	**111**	**46**	**110**	**43**	**105**	**39**

Parent Company	2012 Average number of employees	Of whom men	2011 Average number of employees	Of whom men	2010 Average number of employees	Of whom men
	92	36	96	36	92	32
Total for Parent Company	**92**	**36**	**96**	**36**	**92**	**32**

	Group			Parent Company		
Costs and remuneration to all employees and Board	2012	2011	2010	2012	2011	2010
Salaries, remuneration and social security fees						
Salaries and other remuneration to the Board, President and executive management	21,545	16,286	22,648	20,061	14,935	21,335
Salaries and other remuneration to other employees	58,592	56,241	49,962	46,924	46,723	40,565
Pension cost for the Board, President and Executive Management[1]	2,806	2,596	4,186	2,550	2,273	3,926
Pension cost for other employees[1]	11,868	11,412	9,955	10,811	10,431	8,805
Social security fees for the Board, President and Executive Management	7,388	5,616	7,728	6,922	5,114	7,252
Social security fees for other employees[2]	25,518	18,824	18,709	22,513	15,968	16,030
Other personnel costs	12,762	9,710	8,202	12,027	8,897	6,024
Total	**140,479**	**120,685**	**121,390**	**121,808**	**104,341**	**103,937**

[1] Pertains in its entirety to defined-contribution pension plan.
[2] Of which 5,025 (1,028) (1,012) pertains to estimated costs for social security fees for employee stock option program.

Principles for remuneration
Board fees, including fees to the Board Chairman and remuneration for work on Board Committees, are set by the shareholders at the Annual General Meeting.

The Board's Remuneration Committee comprises Martin Nicklasson, Michael Shalmi and Raymond Hill. The Remuneration Committee convenes as needed and is charged with the task of preparing decision data for the Board regarding wages, salaries and bonuses, as well as the task of making decisions on certain issues regarding remuneration paid to the President and other senior executives who, in addition to the President, comprise seven persons. The Remuneration Committee held 1 (2) meeting during the year.

Guidelines approved by the 2012 Annual General Meeting

Reasons
Orexo shall offer market terms so that the company can recruit and retain skilled personnel. Remuneration to Executive Management shall com-

prise fixed salary, variable remuneration, long-term incentive programs, pension and other customary benefits. Remuneration is based on the individual's commitment and performance in relation to previously established goals, both individual goals and company-wide goals. Individual performance is continuously evaluated.

Fixed salary
Fixed salary is generally reviewed on an annual basis and shall be based on the qualitative performance of the individual. The fixed salary of the President and other senior executives shall be in line with market conditions.

Variable remuneration
Variable remuneration shall take into account the individual's level of responsibility and degree of influence. The size of variable remuneration is based on the percentage of set goals met by the individual. Variable remuneration shall not exceed 40 percent of fixed salary for the President and 30 percent of fixed salary for other senior executives. In addition, the Board shall have the option of deviating from these terms and make discretionary allotments of variable remuneration when the Board deems such action to be appropriate.

Long-term incentive programs
Orexo has adopted share-based incentive programs that are designed to promote the company's long-term interests by motivating and rewarding the company's senior executives. For a description of the company's long-term incentive programs, see Note 16 and the company website, www.orexo.com.

Other remuneration and terms of employment
The President and other senior executives are covered by a defined-contribution pension plan. Pension premiums paid by the company amount to 20 percent of the President's monthly salary, while pension premiums for other senior executives amount to an average of 20 percent of fixed annual salary.

The employment agreement with the President may be terminated with a notice period of six months. Employment agreements with other senior executives may be terminated with a period of notice of between three and twelve months. The President is entitled to severance pay if the company terminates employment corresponding to twelve months' salary. Severance pay for other senior executives if the company terminates employment amounts to between zero to twelve months' salary.

Deviation from guidelines
The Board is entitled to deviate from the above guidelines if the Board determines that there are special reasons in an individual case that warrant such action.

Deviations from the principles and guidelines adopted in 2012
As a result of the successful acquisition of the American rights for Abstral and the planned launch of Zubsolv™, Orexo has created the foundation for establishing a successful commercial presence in the USA. In order to succeed in this work in the best possible way and thereby secure optimal returns for Orexo's shareholders, Novo A/S and HealthCap consider it necessary and desirable to tie the independent members of the Board closer to the company. These members of the Board can thus support management and Orexo can derive operative benefit from the Board members' expertise and personal networks for coming analyses and decision-making processes with regard to Orexo's future. In order to compensate, remunerate and motivate the independent members of the Board to assist through the extra work that this work for change involves, the Extraordinary General Meeting held on July 13, 2012 resolved to adopt the Board shareholder program 2012/2017.

Costs and remuneration to the Board, President and senior executives

SEK thousand	Basic salary/ Board fees	Variable remuneration	Other benefits	Pension costs	Share-based payment	Other remuneration	Total remuneration
Board of Directors							
Martin Nicklasson, Chairman	433						433
Scott Myers, Board member	100						100
Michael Shalmi, Board member	100						100
Raymond Hill, Board member	144				20		164
Staffan Lindstrand, Board member	136						136
Kristina Schauman, Board member	167						167
Subtotal	**1,080**				**20**		**1,100**
President							
Anders Lundström, President and CEO	3,969	1,224	45	622	1,950		7,810
Other senior executives (7)	11,354	2,379	10	1,928	1,582		17,253
Total	**16,403**	**3,603**	**55**	**2,550**	**3,552**		**26,163**

For 2012, provisions for variable remuneration to senior executives were made in the amount of MSEK 3.6.

Other benefits refer primarily to a company car and travel between place of residence and workplace.

Other senior executives, as of December 31, refers to the 7 people presented on page 77.

The number of shares and options held by the President and senior executives is shown in the information regarding the Board on page 76 and Management on page 77. Refer to Note 16 for a description of share-based remuneration.

Orexo has not granted loans or guarantees or provided collateral on behalf of the company's Board members, senior executives or auditors. None of the Board members, senior executives or auditors has directly or indirectly through associated companies or their immediate families been involved in business deals with Orexo on non-commercial terms.

Board members and senior executives

	2012 Number on the closing date,	of whom men	2011 Number on the closing date,	of whom men	2010 Number on the closing date,	of whom men
Group (inc. subsidiaries)						
Board members	12	92%	11	91%	11	91%
President and other senior executives	7	71%	7	71%	6	66%
Parent Company						
Board members	6	84%	6	100%	8	88%
President and other senior executives	6	67%	7	71%	6	66%

NOTE 29 INCOME TAX

	Group			Parent Company		
	2012	2011	2010	2012	2011	2010
Current tax for the year	–	–	–	–	–	–
Current tax attributable to previous years	–	–	–	–	–	–
Deferred tax	1,715	7,411	13	–	–	–
Total	**1,715**	**7,411**	**13**	**0**	**0**	**0**
Difference between the Group's tax expense and tax expense based on the current tax rate						
Recognized pre-tax earnings	–85,835	–392,009	–89,259	–157,073	–443,769	–118,632
Tax under current tax rate	22,575	102,943	23,149	41,310	116,711	31,200
Tax effect of non-deductible costs	–3,598	–78,200	–3,600	–11,250	–99,223	–113
Tax effect of changed tax rate	–48,956	–	–	–37,314	–	–
Tax effect of deductible costs not charged to earnings	–	3,366	–	–	3,366	–
Tax effect of non-deductible income	–	2	150	–	21,041	150
Increase in unrecognized deferred tax	29,979	–28,111	–19,699	7,254	–41,895	–31,237
Decrease in deferred tax liability due to temporary differences	1,715	7,411	13	–	–	–
Tax on earnings for the year according to the statement of operations	**1,715**	**7,411**	**13**	**0**	**0**	**0**

Tax rate
The current tax rate is the tax rate for income tax in the Group. The tax rate is 26.3 percent (26.3).

NOTE 30 DEFERRED INCOME TAX

Deferred tax assets and deferred tax liabilities are netted when there is a legal netting right. Deferred tax liabilities pertaining to temporary differences in conjunction with the acquisition of Biolipox's (2007) acquired R&D were netted against the tax-loss carry-forwards in Biolipox.

In 2011, some of the acquired R&D was impaired, resulting in a reduction in the netted loss carry-forwards in Biolipox.

	Group			Parent Company		
	2012	2011	2010	2012	2011	2010
Deferred income tax						
Deferred tax assets						
– *related to loss carry-forwards in Biolipox*	27,931	27,931	94,752	–	–	–
– *related to other loss carry-forwards*	250,475	280,454	185,552	190,954	198,208	156,313
Loss carry-forwards not asset recognized	–278,406	–308,385	–280,274	–190,954	–198,208	–156,313
Deferred tax liability						
– *to be paid after more than 12 months*	–1,566	–1,807	–8,879	–	–	–
– *to be paid within 12 months*	–2,505	–	–33	–	–	–
– *to be paid after more than 12 months and related to temporary differences on acquired R&D*	–27,931	–27,931	–94,752	–	–	–
Deferred income tax, net	**4,071**	**1,807**	**8,912**	**0**	**0**	**0**

Recognized deferred tax liabilities amounted to 1,807 at the beginning of the year and 4,071 at year-end. The deferred tax liabilities relate to cash flow hedging.

Deferred tax assets are recognized for tax-loss carry-forwards to the extent that it is probable that they can be applied through future taxable profits. Since it is difficult to determine when loss carry-forward can be applied, no value has been recognized in the balance sheet for loss carry-forwards other than the netting described above. Loss carry-forward in the Group amounted to MSEK 1,139 (1,175). There is no time limit restriction on when it can be applied.

Gross changes in respect of deferred tax are as follows:

	2012	2011	2010
Opening balance	**1,807**	**8,912**	**9,791**
Tax on amortization of intellectual property rights in the Group	–1,807	–7,105	–879
Tax on cash flow hedging	4,071	–	–
Closing balance	**4,071**	**1,807**	**8,912**

NOTE 31 EARNINGS PER SHARE

Earnings per share before dilution are calculated by dividing the earnings attributable to the Parent Company by a weighted average number of common shares outstanding during the period, as shown in the presentation below.

	Group		
	2012	2011	2010
Earnings used for the calculation of earnings per share before dilution	–85,863	–392,009	–89,246
Average number of shares before dilution	29,448,932	27,167,225	23,402,502
Loss per share before dilution (SEK per share)	–2.92	–14.43	–3.81
Options outstanding	2,245,927	2,299,538	1,517,941

For calculating the earnings per share after dilution, the weighted average number of common shares outstanding is adjusted for the dilution effects of all potential common shares. The potential common shares in the Parent Company are represented by employee stock options, warrants and convertibles. In terms of convertibles, dilution has been increased by all shares that a convertible issue can produce.

As earnings are negative, the same earnings per share are recognized after dilution as before dilution, as shown in the table above.

NOTE 32 SHARE DIVIDENDS

No dividend was paid in 2012. The Board will propose to the Annual General Meeting on April 11, 2013 that no divided be paid for the 2012 fiscal year.

NOTE 33 UNDERTAKINGS

Undertakings relating to operational leasing in which Group companies are the lessees

The Group leases various types of machinery and other technical plant in accordance with cancelable operational leasing agreements. Information on the leasing expenses recognized in the statement of operations during the year is shown in Note 7.

Orexo concluded a new leasing contract, effective January 1, 2007. This contract pertains to the leasing of premises for offices and production facilities.

The nominal value of future leasing fees for lease agreements that cannot be terminated are as follows:

	Group			Parent Company		
	2012	2011	2010	2012	2011	2010
Falls due for payment within one year	15,091	15,091	15,091	15,091	15,091	15,091
Falls due for payment later than one year but within five years	15,091	30,182	45,276	15,091	30,182	45,276
Falls due for payment later than five years	–	–	–	–	–	–
Total	**30,182**	**45,273**	**60,367**	**30,182**	**45,273**	**60,367**

NOTE 34 DISCLOSURES ON THE CASH FLOW STATEMENT

	Group			Parent Company		
	2012	2011	2010	2012	2011	2010
Adjustment for items not included in cash flow comprise the following:						
Depreciation/amortization and impairment	17,331	279,072	33,764	16,453	382,061	8,944
Employee stock options, value of employees' services	9,279	3,111	3,309	9,267	3,111	2,978
Financial expenses, convertible bonds	–3,071	–2,882	2,752	–3,071	–2,882	2,752
Impairment, shares in subsidiaries	–	–	–	29,466	–	–
Other	–9	53	–	–	–	193
Total	**23,530**	**279,354**	**39,285**	**52,115**	**382,290**	**14,867**

NOTE 35 RELATED PARTY TRANSACTIONS

Purchases and sales between Group companies

The following transactions took place between companies in the Group:	2012	2011	2010
Forward invoicing of costs, which is recognized as net revenues			
Biolipox AB	45,388	50,869	35,581
Prostrakan AB	451	1,275	270
Kibion AB	3,404	2,986	3,622
Sale of services			
Wagner Analysen Technik GmbH	1,182	322	-
Orexo UK Ltd	–	1,172	3,716
Pharmakodex Ltd	1,008	774	85
Kibion AB	364	460	597
Pharmacall	2	–	–
Total	**51,799**	**57,858**	**43,871**

The Group has also indirectly received income via the joint venture as a result of royalties received for products that Prostrakan Ltd sells to the joint venture. The ProStrakan AB joint venture was divested during the year.

The Group has no losses or doubtful credits on receivables from related parties.

Liability to related party

On April 7, 2010, Orexo issued a convertible debenture to Novo A/S, which used the funds to purchase shares on the market and become one of Orexo's major shareholders. When the decision was taken to make the issue, Novo did not have a holding or a seat on the Board of Directors.

The following transactions have taken place between Orexo and Novo A/S in respect of the convertible debenture	2012
At the beginning of the year	111,802
Interest paid during the year	–8,478
Interest expense	8,892
At year-end	112,216

Remuneration and obligations in respect of pensions and similar benefits to Board members and the President.

See Note 28. No other transactions with related parties have taken place.

NOTE 36 BUSINESS COMBINATIONS

Business combinations in 2011

On August 1, Orexo AB obtained a controlling influence and thus control over the acquired German company Wagner Analysen Technik GmbH. The company was acquired by Orexo AB's subsidiary Kibion AB and consolidated in the Orexo Group as of the same date.

The acquisition strengthens Kibion's operation and creates significant opportunities for future growth and thus a stronger independent unit.

The goodwill of MSEK 16.0 that arose through the acquisition relates to the synergy effects that are expected to be attained by Kibion AB's and the acquired company Wagner Analysen Technik GmbH's operations.

The acquired company contributed net revenues of MSEK 4.6 and a net loss of MSEK 0.2 for the period August 1 to December 31, 2011.

Had the acquisition taken place on January 1, 2011, the Group's net revenues would have been MSEK 2.6 higher and net earnings for the period MSEK 3.5 lower.

The acquisition was financed through a bank loan.

The acquisition also includes additional conditional payments based on sales revenues.

The Group has made a provision corresponding to the expected outcome. However, there is a ceiling regulating the size of the additional purchase price, which has been set at a maximum of MEUR 4.

The cost is MSEK 14.3. Costs related to the acquisition amount to MSEK 0.8 and are recognized under administrative expenses.

Acquired net assets and goodwill (MSEK):	
Purchase price	10.0
Additional purchase price	4.3
Total purchase price	**14.3**
Fair value of acquired net assets	–1.7
Goodwill	**16.0**

The assets and liabilities included are as follows (MSEK):	Fair value	Acquired carrying amount
Tangible fixed assets	0.1	0.1
Inventories	0.6	0.6
Current receivables	7.2	7.2
Cash and cash equivalents	0.2	0.2
Current liabilities	–9.8	–9.8
Acquired net assets	**–1.7**	**–1.7**

NOTE 37 EVENTS AFTER THE CLOSING DATE

Orexo entered into an agreement with Astra Zeneca regarding OX-CLI.

Nikolaj Sørensen was appointed as the new CEO after Anders Lundström stepped down.

The license agreement on OX17 between Novartis AG and Orexo was terminated.

Orexo sold Abstral® in the USA to Galena Biopharma Inc.

NOTE 38 INFORMATION ABOUT OREXO AB (PUBL)

Orexo AB (publ) has its registered office in Uppsala, Sweden, and the address of the company's head office is Virdings allé 32 A, SE-751 05 Uppsala, Sweden, telephone +46 (0)18 780 88 00.

The statements of operations and balance sheets will be subject to adoption at the Annual General Meeting to be held on April 11, 2013.

Assurance of the Board of Directors and President

The Board of Directors and President hereby give their assurance that the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and present a true and fair view of the Group's financial position and earnings. The Annual Report has been prepared in accordance with generally accepted accounting principles and presents a true and fair view of Parent Company's financial position and earnings.

The Board of Directors' Report for the Group and the Parent Company presents a true and fair review of the Group's and the Parent Company's operations, financial positions and earnings and describes the significant risks and uncertainties facing the Parent Company and the companies included in the Group.

Uppsala, March 19, 2013

Orexo AB (publ)

Martin Nicklasson
Chairman of the Board

Raymond Hill
Board Member

Staffan Lindstrand
Board Member

Scott Myers
Board Member

Kristina Schauman
Board Member

Michael Shalmi
Board Member

Nikolaj Sørensen
President

Our audit report was submitted on March 19, 2013.

PricewaterhouseCoopers AB

Lars Kylberg
Authorized Public Accountant

Auditor's Report

To the annual meeting of the shareholders of
Orexo AB (publ)
Corporate identity number 556500-0600

Report on the annual accounts and consolidated accounts
We have audited the annual accounts and consolidated accounts of Orexo AB for the year 2012. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 7-66.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts
The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards , as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director 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.

Auditor's responsibility
Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

Opinions
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 2012 and of its financial performance and its cash flows 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 2012 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, 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 annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Report on other legal and regulatory requirements
In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Orexo AB for the year 2012.

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, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility
Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

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.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

Opinions
We recommend to the annual 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.

Uppsala, March 19, 2013

PricewaterhouseCoopers AB

Lars Kylberg
Authorized Public Accountant

Definitions of key figures

Key figures and certain other operational information and information per share have been defined as follows:

Number of shares after dilution	– Calculation of dilution from options issued by the company until 2005 has been made in accordance with IAS 33.
Return on total capital	– Operating profit/loss plus financial income as a percentage of average total assets.
Return on shareholders' equity	– Profit/loss for the period as a percentage of average shareholders' equity.
Return on employed capital	– Operating profit/loss plus financial income as a percentage of average capital employed.
Current ratio	– Current assets as a percentage of current liabilities.
Gross margin	– Gross profit divided by net revenues.
EBITDA	– Earnings before interest, taxes, depreciation, and amortization.
Shareholders' equity per share, before dilution	– Shareholders' equity divided by total number of shares before dilution at the end of the period.
Shareholders' equity per share, after dilution	– Shareholders' equity divided by total number of shares after dilution at the end of the period.
Average number of employees	– Average number of full-year employees for the period.
Cash flow from operating activities per share, before dilution	– Cash flow from operating activities divided by the average number of outstanding shares before dilution.
Cash flow from operating activities per share, after dilution	– Cash flow from operating activities divided by the average number of outstanding shares after dilution..
Acid-test ratio	– Current assets, excluding inventories, as a percentage of current liabilities.
Capital turnover rate	– Net revenues divided by average operating capital.
Net debt	– Current and long-term interest-bearing liabilities, including pension liabilities, less cash and cash equivalents.
Operating capital	– Total assets, less non-interest-bearing liabilities and provisions less cash and cash equivalents.
Earnings per share, before dilution	– Profit/loss for the period divided by the average number of outstanding shares before dilution.
Earnings per share, after dilution	– Profit/loss for the period divided by the average number of outstanding shares after dilution.
Return on equity	– Profit/loss for the year divided by average shareholders' equity.
Interest-coverage ratio	– Profit/loss after financial items plus interest expenses and similar items, divided by interest expenses and similar items.
Working capital, net	– Non-interest-bearing current assets less non- interest-bearing current liabilities.
Working capital, net/net revenues	– Average working capital, net, divided by net revenues.
Operating margin	– Operating profit/loss as a percentage of net revenues.
Debt/equity ratio	– Interest-bearing liabilities divided by shareholders' equity.
Equity/assets ratio	– Shareholders' equity as a percentage of total assets.
Capital employed	– Interest-bearing liabilities and shareholders' equity.
Profit margin	– Profit/loss after financial items expressed as a percentage of net revenues.

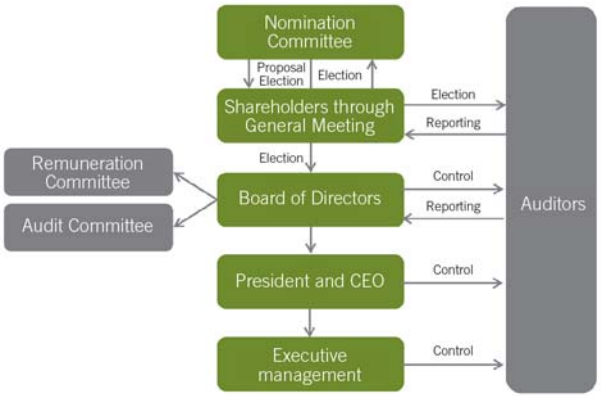
Corporate Governance Report for Orexo AB (publ)

Orexo is a Swedish public limited liability company with registered offices in Uppsala, Sweden and its share is listed on the NASDAQ OMX (Small Cap) Stockholm. Corporate Governance in Orexo is based on applicable legislation, the Swedish Code of Corporate Governance ("the Code") and internal regulations and guidelines. The Code is available at www.corporategovernanceboard.se. Orexo applies the Code with one deviation.

The aim of corporate governance at Orexo is to create a clear division of roles and responsibilities between shareholders, the Board of Directors and Executive Management.

The company's auditors reviewed this report.

Corporate Governance at Orexo



The governance, management and control of Orexo are divided between the General Meeting of Shareholders, the Board of Directors and the President.

External regulations influencing corporate governance

- Swedish Companies Act
- Regulations governing external reporting
- NASDAQ OMX Stockholm rules for issuers
- Swedish Code of Corporate Governance

Internal rules of significance for corporate governance

- Articles of Association
- Formal work plan for the Board of Directors (including terms of reference for Board Committees)
- Terms of reference for the President
- Guidelines for remuneration of senior executives
- Finance policy
- IT policy
- Financial guidelines
- HR guidelines

Shareholders

Orexo's share has been listed on the NASDAQ OMX Stockholm (Small Cap) since 2005. At year-end, the total number of shares amounted to 29,946,332 (239,865,495), distributed among 3,588 (3,605) shareholders. The 10 largest shareholders held 62 (62) percent of the outstanding shares, corporate management 2 (2) percent and other shareholders 36 (36) percent. At December 31, 2012, two shareholders each held shares representing 10 percent or more of the company – Novo A/S, 24.0 percent and HealthCap, 18.5 percent. Non-Swedish shareholders accounted for approximately 45 (45) percent of the total number of shares. Institutions and industrial owners hold the majority of shares. At year-end, 81 (81) percent of shares were held by legal entities, and 19 (19) percent by private individuals.

Articles of Association

The Articles of Association are adopted by the General Meeting of Shareholders and outline a number of mandatory tasks of a fundamental nature to the company. Notification of the convening of the General Meetings is issued through an advertisement being placed on Orexo's website and in Post- och Inrikes Tidningar (Official Swedish Gazette). Confirmation that a General Meeting has been convened shall be announced in the Svenska Dagbladet newspaper. The Articles of Association state that Orexo shall conduct research and development, and manufacture, market and sell pharmaceuticals and diagnostic preparations. Orexo's Articles of Association also state that the Board of Directors shall have its registered office in Uppsala, Sweden, and shall consist of a minimum of three and a maximum of nine members, with a maximum of three deputies. The Articles of Association contain no special provisions on the appointment or dismissal of Board members. Amendments to the Articles of Association are made in accordance with the provisions of the Swedish Companies Act following a resolution of the General Meeting. The complete Articles of Association are available at www.orexo.com.

General Meeting of Shareholders

Orexo's highest decision-making body is the General Meeting, at which every shareholder who is entered in the share register and who has provided notification of their attendance within the stipulated time is entitled to participate and vote for the amount

of shares held. Shareholders can also be represented by proxy at General Meetings. One share entitles the holder to one vote at General Meetings, and there are no limits as to how many votes each shareholder can cast at a General Meeting. Resolutions at General Meetings are passed with a simple majority, unless the Companies Act stipulates a higher percentage of the shares and votes represented at the Meeting.

The Annual General Meeting elects members to the Board of Directors and sets Board fees. The other mandatory tasks of the Annual General Meeting include adopting the company's balance sheet and income statement, passing resolutions on the appropriation of earnings from operations, remuneration guidelines for senior executives and decisions concerning discharge from liability for Board members and the President. The Annual General Meeting also chooses the company's auditor and sets the auditors' fees. In accordance with the Articles of Association, the Annual General Meeting shall be held in either Uppsala or Stockholm.

Annual General Meeting 2012

The Annual General Meeting was held on Wednesday, April 11, 2012 in Uppsala. At the Meeting:

- The balance sheet and income statement for the Parent Company and the Group for the 2011 fiscal year were adopted.
- Raymond G. Hill, Staffan Lindstrand and Michael Shalmi were re-elected as Board members and Martin Nicklasson, Kristina Schauman and Scott Myers were elected as new Board members. Martin Nicklasson was elected as Chairman of the Board. Bengt Samuelsson, Kjell Strandberg and Håkan Åström had declined re-election.
- The Annual General Meeting granted Board members and the President discharge from liability for the 2011 fiscal year.
- A resolution was adopted that fees for Board members should amount to a total of SEK 1,650,000, with SEK 600,000 paid to the Chairman of the Board, SEK 300,000 to Raymond G. Hill, SEK 150,000 to each of the other Board members, and a total of SEK 150,000 distributed between the members of the Audit Committee, so that the Chairman receives SEK 100,000 and SEK 50,000 is distributed between the other committee members for their work on the committee. The fee may be invoiced by a company in such a way that it is cost-neutral for Orexo.
- A resolution was adopted in accordance with the Board's proposal concerning authorization of the Board to approve a new issue of shares against payment in kind.
- A resolution was adopted to extend the latest time for making an offer to participate in the company's performance-based, long-term incentive program 2011/2021.
- The Board's motion concerning principles and guidelines for remuneration and other terms of employment for senior executives was approved.
- The motion concerning terms of reference for the Nomination Committee was approved.

Complete information about the 2012 Annual General Meeting can be found at www.orexo.com.

Extraordinary General Meeting on July 13, 2012

An Extraordinary General Meeting of Orexo was held on Friday, July 13, 2012 in Uppsala. At the meeting:

- A resolution was passed to adopt the Board's proposal concerning the repurchase and transfer of the company's own shares.
- A resolution was adopted that repurchased shares can be transferred within the framework of the performance-based, long-term incentive program 2011/2021 whereby no more than 1,540,000 may be thus transferred.
- A resolution was passed to adopt the Board shareholder program 2012/2017, including the issue of subscription warrants and approval to dispose of the warrants within the framework of this program. No more than 270,000 of the company's own shares may be transferred to Board members. Board members representing major shareholders and non-independent Board members will not take part in the program. In this connection, a resolution was adopted that the Board fee to Raymond G. Hill is to be reduced by SEK 150,000.

For further information on the resolutions and all the terms and conditions of the Board shareholder program, please refer to Orexo's website, www.orexo.com.

Annual General Meeting 2013

The Annual General Meeting of Orexo will be held on Thursday, April 11, 2013, at 5:00 p.m. at the company's premises at Virdings allé 32 A, Uppsala, Sweden.

Nomination Committee

The 2012 Annual General Meeting adopted a resolution that the Company should have a Nomination Committee. The Nomination Committee represents the company's shareholders. It is tasked with creating the best possible basis for the General Meeting's resolutions regarding the election of Board members and Board fees and with submitting proposals concerning, for example, the appointment of auditors and auditors' fees. The Nomination Committee comprises representatives of the four largest shareholders in terms of voting rights on the final banking day in August 2012, in addition to the Chairman of the Board. The composition of the Nomination Committee was announced on Orexo's website and in a press release on October 11, 2012. As a number of those contacted prior to the Annual General Meeting 2013 concerning participation on the Nomination Committee declined to participate, the number of representatives amounted to three, in addition to the Chairman. The Committee held 1 (1) meeting during the year.

Through the Chairman of the Board, the Nomination Committee reviewed the evaluation of the Board's work and received information regarding developments in the company. The principal requirements to be imposed on the Board of Orexo and the importance of independent Board members were discussed.

No special remuneration was paid for participation in the Nomination Committee.

Nomination Committee for the 2013 Annual General Meeting

Name	Representatives
Ulrik Spork	Novo A/S, and Chairman of the Nomination Committee
Björn Odlander	HealthCap
Claus Berner Møller	Arbejdsmarkedets Tillaegspension (ATP)
Martin Nicklasson	Chairman of the Board of Orexo

Combined, the Nomination Committee represents about 49 percent of the number of shares and votes in the company, based on shareholder data at the time of appointment.

Board of Directors

The Board's responsibility is regulated in the Companies Act and the formal work plan that is established annually. The formal work plan establishes the division of the Board's work between the Board in its entirety and the Board's various committees and between the Board and the President. It also sets out the items to be addressed at Board meetings and the manner in which the President provides the Board with information and reports. The Board has appointed Audit and Remuneration Committees from within its ranks.

At year-end, Orexo's Board of Directors consisted of Chairman Martin Nicklasson and Board members Raymond G. Hill, Staffan Lindstrand, Michael Shalmi, Kristina Schauman and Scott Myers. For a more detailed description of Board members, please refer to page 76.

The work of the Board

The Board's formal work plan establishes the items to be addressed at the scheduled Board meetings. Following presentations by the Audit Committee and President, the Board reviews all interim reports prior to publishing. The company's long-term targets and strategy and its budget are evaluated and approved by the Board. At each Board meeting, the President or another senior executive reports on the business situation and the status of development projects.

In addition to the statutory Board meeting, at least six scheduled Board meetings must be held. At the Board meeting during which the annual audit is to be considered, the Board meets with the auditors without the presence of any employees of the company.

It is incumbent upon the Board to ensure that the guidelines for remuneration to senior executives approved by the Annual General Meeting are followed and that the Annual General Meeting proposes guidelines for remuneration to senior executives.

Each year, the Board's work is evaluated by way of discussions and through external assessment. The results of the evaluation are presented to the Board and Orexo's Nomination Committee and forms the basis for proposals for Board members.

In matters concerning ownership, Orexo is represented by the Chairman of the Board.

During the year, the Board held 15 (16) meetings, of which 6 (7) were telephone conferences or meetings by circulation. The Board mainly addressed and resolved on issues concerning the company's strategic direction, the status of projects, research collaboration, licensing of projects, the follow-up of financial performance, investment matters, external reporting, budget planning and follow-up, the program for the repurchase of the company's own shares which was initiated during the third quarter, and the restructuring of the license agreement with ProStrakan concerning Abstral®. These issues are addressed by the Board in its entirety, or in certain instances by Executive Management. Orexo's auditor participated at the Board meeting that approved the financial statements and presented the audit at this meeting.

Remuneration of the Board

The Annual General Meeting resolved that Board fees should amount to SEK 1,650,000, of which SEK 600,000 was to be paid to the Chairman of the Board, SEK 300,000 to Raymond G. Hill and SEK 150,000 to each of the other Board members, and a total of SEK 150,000 to be divided among the members of the Audit Committee so that the Chairman receives SEK 100,000 and the other committee members share SEK 50,000. At the Extraordinary General Meeting held on July 13, 2012 it was resolved that the Board fee to Raymond G. Hill should be reduced by SEK 150,000 and that a Board shareholder program should be introduced for the independent Board members.

Composition of the Board

Name	Function	Independent	Elected	Present at Board meetings	Present at Remuneration Committee	Present at Audit Committee
Martin Nicklasson*	Chairman of the Board		2012	11/11	1/1	4/4
Håkan Åström**	Chairman of the Board		2003	4/4	1/1	1/1
Scott Myers ***	Board member		2012	9/11	–	–
Kristina Schauman***	Board member		2012	11/11	–	4/4
Michael Shalmi	Board member	■	2010	14/15	1/2	1/1
Raymond G. Hill	Board member		2008	12/15	1/2	–
Staffan Lindstrand	Board member	■	2002	13/15	1/1	5/5
Bengt Samuelsson****	Board member		2008	3/4	–	–
Kjell Strandberg****	Board member		2003	4/4	–	–

* Chairman of the Board as from 2012 Annual General Meeting
** Chairman of the Board up until 2012 Annual General Meeting
*** Board member as from 2012 Annual General Meeting
**** Board memeber up until 2012 Annual General Meeting

■ Independent in relation to Orexo and its management
■ Independent in relation to Orexo, its management and the company's largest shareholders

Composition of the Board

Board members, their positions and whether or not they are considered to be independent in relation to Orexo, its management and the company's largest shareholders are stated in the table above. Orexo's Board of Directors is deemed to have satisfied the requirements of the Code in respect of independence, as all members elected by the Meeting have been deemed to be independent in relation to Orexo and its management and all of these members, with the exception of two, have also been deemed to be independent in relation to the company's largest shareholders.

Audit Committee

Orexo's Audit Committee is primarily concerned with ensuring compliance with established principles for financial reporting and internal controls. The Audit Committee must also remain informed about the audit of the Annual Report and consolidated accounts, inspect and monitor the impartiality and independence of the auditor, paying particularly close attention to instances where the auditor provides the company with services outside the scope of the audit, and assist in the preparation of proposals to the General Meeting in respect of auditor selection. The Audit Committee presents the final version of Orexo's interim reports and of the Annual Report to the Board for approval and publication. The Audit Committee meets prior to the publication of each interim report, in connection with budget reviews and when otherwise necessary. The aforementioned issues are addressed by the Committee and the Board makes resolutions on the basis of the proposals produced. Orexo's auditor attends the meetings of the Audit Committee before the publishing of the interim reports and to carry out internal control. During the year, the Audit Committee was convened on 5 (5) occasions. At least one of the members of the Committee must be independent in relation to the company and Executive Management, and also be independent in relation to the company's largest shareholders and have accounting or auditing expertise. The Committee is currently made up of Kristina Schauman (Chair), Martin Nicklasson and Staffan Lindstrand.

Remuneration Committee

The Remuneration Committee is tasked with addressing matters concerning salaries and other terms of employment, pension benefits and bonus systems, including any allocation of warrants under the terms of approved incentive programs for the President and the managers who report directly to him, as well as remuneration issues based on principle. The Committee shall meet as often as required. The above issues are addressed by the Committee and the Board makes resolutions on the basis of the proposals from the Committee. The Committee should comprise the requisite knowledge and expertise to deal with issues related to the remuneration of senior executives. The Remuneration Committee comprises Martin Nicklasson (Chairman), Michael Shalmi and Raymond G. Hill. During the year, the Remuneration Committee was convened on 2 (2) occasions.

Evaluation of the Board's work

The work of the Board, similar to that of the President, is evaluated annually in a systematic and structured process. The Nomination Committee is informed of the results of the evaluation.

President and Executive Management

The President leads the work of the Executive Management team and makes decisions in consultation with the rest of the management. At the end of 2012, Executive Management consisted of eight people. The Executive Management team holds regular meetings under the supervision of the President.

Deviation from the Swedish Code of Corpoarte Governance
As a result of the successful acquisition of the American rights to Abstral® and the planned launch of Zubsolv™, Orexo has created the foundation for establishing a successful commercial presence in the USA. In order to be successful in this work to the greatest possible extent and thus ensure optimal return to Orexo's shareholders, Novo A/S and HealthCap consider that it is necessary and desirable to tie the independent Board members closer to the company. The Board members can thus support management and Orexo can draw operative benefit from the Board members' competence and personal networks in coming analyses and decision processes with regard to Orexo's future. In order to compensate, remunerate and motivate the independent Board members to assist in the extra work required by this process of change, a resolution was passed at the Extraordinary General Meeting held on July 13, 2012 to adopt the Board shareholder program 2012/2017.

Board of Directors' Report on Internal Control and Risk Management regarding Financial Reporting

Internal governance, control and risk management concerning financial reporting are fundamental factors in Orexo's business control.

The aim of Orexo's risk management systems and processes is to ensure that the shareholders can have the utmost confidence in the financial operation and presented reports, including the information given in this Annual Report and all interim reports. Orexo has established a methodology for developing, implementing, driving and evaluating internal controls and risk management in respect of all parts of the company, including financial reporting.

This methodology conforms to internationally established standards in the industry and comprises a framework with five principal components: control environment, risk assessment, control activities, information and communication, and follow-up and evaluation.

Control environment

Pursuant to the Swedish Companies Act, the Board of Directors is responsible for the internal control and governance of the company. To maintain and develop a functional control environment, the Board has implemented a process of risk mapping and established a number of basic control documents and procedures that are of importance to financial reporting. These include the Formal work plan for the Board of Directors and the Terms of reference for the President, and accounting and reporting instructions, which are reviewed and approved annually by the Board.

In addition, the control environment is continuously updated and secured by means of continuous monitoring and regular evaluations of risk profiles within various functions.

Responsibility for the daily work of maintaining the control environment is primarily incumbent on the President. He reports regularly to the Board of Directors and the Audit Committee pursuant to established procedures. In addition, the Board also receives regular reports directly from the company's auditor. Company managers have defined authorities, control functions and responsibilities within their respective areas for financial and internal controls.

Risk assessment

Orexo regularly conducts extensive evaluations of financial risks and other risks that may impact financial reporting. These reviews extend to all parts of the company and are carried out to ensure that there is no significant risk of errors occurring in financial reporting. There are several areas where the control of financial information is particularly important, and Orexo has established a comprehensive risk layout that highlights a number of key potential risks in the financial reporting system.

The company continuously monitors and evaluates these areas and regularly examines other areas in order to create a comprehensive set of control procedures that will minimize the risks in these areas. In addition, new and existing risks are identified, addressed and regulated through a process of discussion in forums such as the Executive Management team, Board and Audit Committee.

Control activities

In light of the risks identified in the risk layout, and the continuous monitoring of the methods used to manage financial information, Orexo has developed control activities that ensure good internal control of all aspects of financial reporting. A number of policy documents and procedures have been applied throughout the year to manage reporting and accounting. Standard procedures, attestation systems, financial guidelines and the risk layout are examples of such policy documents.

An additional level of control in the financial system has been achieved by separating the company's financial and controller functions. These units are responsible for ensuring that financial reporting is correct, complete and timely. Orexo strives to continually improve its internal control systems and has, on occasion, engaged external specialists when validating these controls.

Information and communication

Orexo is a listed company in one of the most regulated markets in the world – healthcare. In addition to the highly exacting requirements that NASDAQ OMX Stockholm and the supervisory authorities impose on the scope and accuracy of information, Orexo also employs internal information and communication control functions designed to ensure that correct financial and other corporate information is communicated to employees and other stakeholders.

The Board receives monthly reports concerning financial performance, the status of Orexo's development projects and other relevant information.

The corporate intranet provides detailed information about applicable procedures in all parts of the company and describes the control functions and how they are implemented.
The security of all information that may affect the market value of the company and mechanisms to ensure that such information is

communicated in a correct and timely fashion are the cornerstones of the company's undertaking as a listed company. These two factors, and the procedures for managing them, ensure that financial reports are received by all players in the financial market at the same time, and that they provide an accurate presentation of the company's financial position and performance.

Follow-up

Orexo's management conducts a monthly performance follow-up, with an analysis of deviations from the budget and the preceding period. Orexo's controller function also conducts monthly controls, evaluations and follow-ups of financial reporting. Because much of the company's product development is carried out in project form, these are followed up on a continuous basis from a financial perspective. The Board of Directors and the Audit Committee review the Annual Report and interim reports prior to publication. The Audit Committee discusses special accounting policies, risks and other issues associated with the reports. The company's external auditor also participates in these discussions.

Orexo has no separate auditing function (internal audit). The Board annually evaluates the need for such a function and, considering the size and structure of the company where essentially the company's entire operations are conducted from its head office in Uppsala, Sweden, has found no basis for establishing such a separate auditing function. The Board of Director's follow-up of the internal control over financial reporting is mainly carried out through the Audit Committee. All of the company's interim reports are reviewed by the auditors.

Further information about Orexo's corporate governance

The following information is available at www.orexo.se (in Swedish) and www.orexo.com (in English):

Articles of Association

- Information about the Swedish Code of Corporate Governance
- Information from General Meetings of previous years
- Information from the Nomination Committee
- Information about remuneration principles for senior executives
- Corporate governance reports from 2008 onwards
- Information for the 2013 Annual General Meeting (convening notice, Nomination Committee proposals, presentation of the work of the Nomination Committee, etc.)

Auditor's Report on the Corporate Governance Statement

To the annual meeting of the shareholders of Orexo AB, corporate identity number

It is the Board of Directors who is responsible for the Corporate Governance Statement for the year 2012 on pages 68-74 and that it has been prepared in accordance with the Annual Accounts Act.

We have read the corporate governance statement and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory examination of the Corporate Governance Statement 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.

In our opinion, the Corporate Governance Statement has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Uppsala, March 19, 2013

PricewaterhouseCoopers AB

Lars Kylberg
Authorized Public Accountant

Board of Directors

1. Martin Nicklasson, Chairman of the Board of Directors (b. 1955)

Board member since 2012
M.Sc. Pharm. PhD and Associate Professor at the Faculty of Pharmacy, Uppsala University.
Other appointments: Chairman of Farma Holding AS and board member of Pozen Inc., Oasmia AB, Biocrine AB and Denator AB. Member of the Royal Academy of Engineering Sciences (IVA).
Previous appointments: CEO at Swedish Orphan Biovitrum AB 2007-2010. Astra/AstraZeneca 1978–1989 and 1991–2007, among other responsible for global drug development and marketing and business development within AstraZeneca, and CEO at AstraZeneca Sweden AB. CEO at Astra Hässle AB and responsible for R&D within KABI.
Holds 3,000 shares and stock options entitling to 135,000 shares.

2. Raymond G. Hill (b. 1945)

Board member since 2008
B. Pharm., Ph.D., D.Sc (Hon) F. Med. Sci.
Other appointments: Visiting Professor at Bristol, Surrey, Imperial and Strathclyde Universities. President Emeritus at the British Pharmacological Society; Member of Council and Trustee, Academy of Medical Sciences. Non-Executive Director of Addex, Covagen and Karolinska Development.
Previous appointments: 25 years of experience from pharmaceuticals industry, mostly in basic drug discovery research, initially for Parke Davis, followed by Smith Kline & French and then Merck. Executive Director of Pharmacology at the Neuroscience Research Centre 1990-2002, followed by a position as Executive Director, Licensing and External Research, Europe for Merck.
Holds stock options entitling to 60,688 shares.

3. Kristina Schauman (b. 1965)

Board member since 2012
B.Sc. Business and Economics.
Other major appointments: Board member and Chairman of the Audit committee of Apoteket AB and ÅF AB, Board member of Skandia Liv and Member of the Advisory Board of Rädda Barnen Sweden.
Previous appointments: CFO at OMX, Carnegie, Apoteket AB, CEO at Apoteket AB and Group Treasurer at Investor AB. Board member of Vasakronan AB and Apoteket Pension Trust.
Holds 10,000 shares and stock options entitling to 45,000 shares.

4. Scott Myers (b. 1966)

Board member since 2012.
BA in Biology and MBA in Finance.
Other appointments: CEO at Aerocrine AB.
Previous appointments: VP, Head of European Mid-Markets at UCB, senior positions at Johnson & Johnson including Senior Vice President and General Manager of McNeil Specialty Products.
Holds stock options entitling to 45,000 shares.

5. Staffan Lindstrand (b. 1962)

Board member sin 2002.
M.Sc. in Engineering.
Other major appointments: Partner of HealthCap and Board member of HealthCap AB, Aerocrine AB, PulmonX Inc. and 20/10 Perfect Vision AG.
Previous appointments: Ten years in investment banking.
Holds 963 shares indirect.

6. Michael Shalmi (b. 1965)

Board member since 2010
M.D., MBA.
Other appointments: Senior Partner in Novo A/S investment unit Novo Growth Equity,
Previous appointments: 15 years at Novo Nordisk; V.P. International Marketing, Corporate VP Haemostasis and Chief Medical Officer BioPharm, V.P. of Haematology Business Unit, V.P. BioPharm Business Unit, and Corporate V.P. Global Development, Clinical Operations Management at Novo Nordisk HQ.
Does not hold any shares in Orexo.

Management

1. Nikolaj Sørensen (b. 1972)

Chief Executive Officer since February 2013, employed since 2011.
M.Sc. Business and Economics.
Previous appointments: International commercial experience of the pharmaceuticals industry from Pfizer and Boston Consulting Group (BCG).
Board member of the Swedish Pharmaceutical Industry Association (LIF).
Holds 13,770 shares and stock options entitling to 110,000 shares.

2. Carl-Johan Blomberg (b. 1952)

SVP & Chief Financial Officer since 2011.
B.Sc. Business and Finance.
Other appointments: Board Member at Pfizer Pension Trust Sweden and Alfa-Laval Pension Trust.
Previous appointments: CFO at Micronic Mydata, Corp Treasurer at Alfa-Laval, Procordia and Pharmacia & Upjohn.
Holds stock options entitling to 100,000 shares.

3. Peter Edman (b. 1954)

Chief Scientific Officer since 2012.
Ph.D. and Associate Professor in Biochemistry
Previous appointments: Extensive experience from senior positions within research and development at Sobi, Biovitrum, AstraZeneca, Astra and Pharmacia. Director at the Swedish Medical Product Agency. Professor in Pharmaceutical Formulation and, for several years, Adjunct Professor in Drug Delivery.
Holds stock options entitling to 125,000 shares.

4. Thomas Lundqvist (b. 1951)

Executive Vice President and Founder of Orexo.
M.Sc. Pharm.
Previous appointments: Board member 1995–2003 and President 1997–2002 and for five months in 2003–2004. President of NeoPharma Production AB and ten years' experience of working at the Swedish Medical Products Agency.
Holds 495,250 shares and stock options entitling to 185,000 shares.

5. Åsa Holmgren (b. 1965)

Head of Regulatory Affairs since 2008.
M.Sc. Pharm.
Previous appointments: Extensive experience of several major pharmaceutical companies, including AstraZeneca, and mainly international, strategic assignments within Regulatory Affairs.
Holds stock options entitling to 77,500 shares.

6. Marie Zachrisson (b. 1963)

Director of Human Resources since 2011.
B.Sc. Human Resources.
Previous appointments: Extensive HR experience from Ericsson AB, OMX and Inera AB.
Holds stock options entitling to 20,000 shares.

7. Eva Idén (b. 1966)

Acting Chief Operating Officer since 2012.
M.Sc. Chemical Engineering.
Previous appointments: Extensive experience from Astra and AstraZeneca as Head of API Supply, Head of UK Operations and Head of Global Projects/Change Management.
Does not hold any shares in Orexo.

8. Anders Lundström (b. 1962)

President and Chief Executive Officer from February 2011 to February 2013.
M.Sc. Pharm.

Financial Information in Brief

The tables below present financial information for the Orexo Group for the fiscal years 2008 to 2012.

Statement of operations information	2012	2011	2010	2009	2008
Net revenues	326.3	199.6	210.5	236.1	233.3
Cost of goods sold	–27.9	–29.0	–26.3	–23.6	–17.4
Gross profit	**298.4**	**170.6**	**184.2**	**212.5**	**215.9**
Selling expenses	–62.0	–50.1	–35.2	–39.3	–38.8
Administrative expenses	–82.6	–49.6	–46.8	–46.3	–55.3
Research and development costs	–216.2	–194.4	–161.1	–222.2	–238.1
Other operating income and expenses	–17.1	–268.0	-22.8	–3.8	3.8
Operating earnings	–79.4	–391.5	–81.8	–99.1	–112.5
Net financial items	–8.2	–7.9	–7.5	2.1	9.0
Earnings after financial items	**–87.6**	**–399.4**	**–89.3**	**–96.9**	**–103.5**
Income tax	1.7	7.4	–	–1.1	0.4
Net earnings for the year	**–85.9**	**–392.0**	**–89.3**	**–98.1**	**–103.1**

Balance sheet information	2012	2011	2010	2009	2008
Intangible fixed assets	135.2	150.9	407.4	447.0	392.0
Tangible fixed assets	35.1	39.2	41.7	45.8	50.3
Financial fixed assets	18.5	–	–	–	–
Inventories	28.3	26.7	8.0	8.4	14.0
Accounts receivable	17.5	56.9	99.2	31.8	28.8
Other current assets	19.1	25.5	20.6	28.9	28.7
Cash and bank balances	228.1	246.9	135.8	87.4	188.2
Total assets	**481.8**	**546.1**	**712.7**	**649.3**	**702.0**
Shareholders' equity	191.2	311.1	468.2	548.6	569.8
Interest bearing liabilities	120.6	120.9	103.9	16.0	–
Non interest bearing liabilities and provisions	170.0	114.1	140.6	84.7	132.2
Total shareholders' equity and liabilities	**481.8**	**546.1**	**712.7**	**649.3**	**702.0**

Cash flow information					
Cash flow from operating activities before changes in working capital	–61.0	–117.2	–49.4	–79.3	–91.2
Cash flow from changes in working capital	89.7	–	6.4	–54.6	–10.3
Cash flow from operating activities	28.7	–117.2	–43.0	–133.9	–101.5
Acquisition of tangible assets	–5.8	–4.7	–3.4	–3.2	–1.6
Acquisition of subsidiaries	–	–10.3	–	24.7	–0.3
Sale of tangible assets	0.6	–	–	–	–
Sale of joint venture	12.1	–	–	–	–
Cash flow after investing activities	35.6	–132.3	–46.4	–112.4	–103.4
Funds from issue of convertible bonds	–	–	111.2	–	–
Amortization of loans	–2.3	–	–16.0	–	–
Borrowings	–	11.7	–	16.0	–
New share issues	0.8	232.0	–	0.1	–
Buyback of shares	–53.0				
Cash flow for the year	–18.9	111.5	48.8	–96.3	–103.4
Cash and cash equivalents at year-end	228.1	246.9	135.8	87.4	188.2

Key figures

	2012	2011	2010	2009	2008
Growth in net revenues, %	63.5	–5.2	–10.8	1.2	204.0
Margins and profitability					
Gross margin, %	91.4	85.5	87.5	90.0	92.5
Profit margin, %	–26.8	–200.1	–42.4	–41.0	–44.4
Operating margin, %	–24.3	–196.1	–38.8	–42.0	–48.2
Return on total capital, %	–13.9	–52.7	–11.9	–13.7	–13.9
Return on shareholders' equity, %	–32.8	–77.7	–17.9	–17.0	–16.8
Return on capital employed, %	–19.9	–63.3	–14.2	–15.7	–16.9
Capital structure					
Working capital, net, MSEK	–92.8	1.7	–2.7	5.3	–50.3
Working capital, net/net revenues, %	–14.0	–0.2	0.6	–9.5	–23.8
Operating capital, MSEK	83.7	185.2	436.3	477.2	381.6
Capital turnover rate, multiple	242.7	64.2	46.1	55.0	61.3
Shareholders' equity, MSEK	191.2	311.1	468.2	548.6	569.8
Net debt, MSEK	-107.5	–125.9	–31.9	–71.4	–188.2
Debt/equity ratio, multiple	63	39	22.2	–	–
Equity/assets ratio, %	39.7	57.0	65.7	84.5	81.2
Current ratio	173.5	301.4	188.3	233.7	213.2
Acid-test ratio	156.7	278.8	182.6	221.1	201.7
Interest coverage ratio, multiple	Neg	Neg	Neg	Neg	Neg
Employees					
Average number of employees	111	110	105	124	123
Number of employees at year-end	97	118	105	108	128
Personnel expenses, MSEK	138.1	117.6	120.3	128.6	128.5
Data per share					
Before dilution					
Average number of shares, thousands	29,449	27,167	23,403	22,715	21,617
Number of shares at end of period, thousands	28,825	29,865	23,404	23,401	21,617
Earnings per share after tax, SEK	–2.92	–14.43	–3.81	–4.3	–4.8
Shareholders' equity, SEK	6.63	10.42	20.01	23.4	26.4
Cash flow from operating activities per share, SEK	0.97	–4.32	–1.84	–5.90	–4.69
Dividend, SEK	–	–	–	–	–
After dilution					
Average number of shares, thousands	32,101	29,706	25,501	23,801	22,689
Number of shares at end of period, thousands	31,645	32,371	25,943	24,488	22,685
Earnings per share after tax, SEK	–2.92	–14.43	–3.81	–4.3	–4.8
Shareholders' equity, SEK	6.04	9.61	18.05	22.4	25.1
Cash flow from operating activities per share, SEK	0.89	–4.32	–1.84	–5.90	–4.69

Other Information

2013 Annual General Meeting
The Annual General Meeting of Orexo AB will be held on Wednesday, April 11, 2013 at 5:00 p.m. at Orexo AB, Virdings allé 32A in Uppsala, Sweden.

Registration, etc.
Shareholders who wish to participate in the meeting must be recorded in the share register maintained by Euroclear Sweden AB on Friday April 5, 2013, and notify Orexo of their intention to attend the meeting not later than on Friday April 5, 2013 by post to Orexo AB, P.O. Box 303, SE-751 05 Uppsala, Sweden, by telephone +46 (0) 18 780 88 00, by telefax +46 (0) 18 780 88 88, or by e-mail to beata.augenblick@orexo.com.

The notification shall set forth the name, personal/corporate identity number, the number of shares held, telephone number (daytime) and, where applicable, number of assistants (not more than two) that the shareholder intends to bring to the meeting. Shareholders to be represented by proxy should submit a power of attorney (original document) and a certificate of registration or equivalent together with the notification of attendance. A proxy form is available at www.orexo.com.

Shareholders whose shares are registered in the name of a nominee/custodian must temporarily re-register their shares in their own names to be entitled to participate in the meeting. Shareholders must inform their nominee/custodian of such re-registration well before Friday April 5, 2013 by which date such re-registration must have been executed.

Full information about the Annual General Meeting can be found on the company's website, www.orexo.com.

Financial calendar 2013

Annual Report	March 21, 2013
2013 Annual General Meeting	April 11, 2013
Interim Report, January–March 2013	April 26, 2013
Interim Report, January–June 2013	July 12, 2013
Interim Report, January–September 2013	October 23, 2013

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Glossary

Alfentanil
A potent synthetic opioid analgesic drug, used for anaesthesia in surgery.

Anesthesia
Procedure for lowering a patient's consciousness to enable a medical procedure to proceed without pain for the patient.

Breakthrough pain
A short, intensive period of pain that occurs in addition to chronic levels of long-term pain even though these are treated by regular painkillers.

Buprenorphine
A strong, pain-relieving substance.

CLI
Cysteinyl Leukotriene Inhibitor.

Clinical studies/Clinical trials
Studies of the safety and efficacy of a drug in human beings.

Drug delivery
The process through which a pharmaceutical may be introduced to the patient that enables the active compound to function as intended.

Fentanyl
An opioid with similar effect on human patients to morphine. Used mainly within anesthesia and analgesia.

Gastroesophageal Reflux Disease (GERD)
Severe heartburn caused by leakage of stomach acid through the hiatus sphincter up into the oesophagus.

Gastroscopy
Examination of the stomach, oesophagus or duodenum.

GMP
Good Manufacturing Practice.

Helicobacter pylori
A bacterium that can infect the mucous membrane lining of the stomach.

Joint Venture
A partnership in which companies combine assets or resources externally to form a new separate entity to work on the development of a project.

Mucoadhesive
Something which sticks to the surface of the mucosa.

Naloxone
An opioid inverse agonist used to counter the effects of opioids.

Opioids
Collective term for compounds that act via opioid receptors on nerve cells, mainly in the central nervous system.

Opioid analgesic
Pain-relieving compound derived from synthetic or natural opium or morphine.

PGE
Prostaglandin (PG) E2 – biologically active mediator acting upon arachidonic acid locally in inflammatory conditions.

Pharmacokinetics
The processes by which a pharmaceutical is absorbed, distributed and eliminated by the body.

Pharmacological properties
The characteristics or properties of a pharmaceutical, especially those which make it medically effective.

Phase I studies
Studies mainly of the safety of a drug. Performed on healthy human volunteers.

Phase II studies
Studies of the safety and efficacy of a drug and appropriate doses. Performed on a limited number of patients.

Phase III studies
Studies of the safety and efficacy of a drug in a clinical situation. Performed on a large number of patients.

Preclinical development/Preclinical studies
Studies of the safety and efficacy of a drug prior to evaluation in humans. Can be performed on animals and in various cell systems.

Rhinitis
Hay fever.

Sublingual
Beneath the tongue.

Transmucosal
Administration of a drug through the mucosa.

Zolpidem
A pharmaceutical substance used to treat temporary or short-term insomnia.