Active Biotech

ANNUAL REPORT 2017

Contents

Active Biotech in brief 3
Comments from the CEO 4

Directors' Report 6

GROUP
Income statement 20
Consolidated statement of cash flows 20
Statement of consolidated comprehensive income 20
Consolidated statement of financial position 20
Statement of changes in consolidated equity 21

PARENT COMPANY
Income statement 21
Cash-flow statement 21
Statement of comprehensive income 21
Balance sheet 22
Statement of changes in Parent Company's equity 22
Notes to the financial statement 23
Auditors' report 42
Summary of financial development 47

The share 48
Intellectual property rights 51
Corporate Governance Report 52
Board of Directors and auditors 56
Executive Management 57
Glossary 58
Business concept, objectives and business strategy 59

Financial information
Interim report (Q1) May 17, 2016
Annual General Meeting May 17, 2018
Interim report (Q2) August 9, 2018
Interim report (Q3) November 15, 2018
Year-end report for 2018 February 14, 2019
Financial information can be requested from
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Information can also be obtained from the company's website www.activebiotech.com.

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

Annual General Meeting

The Annual General Meeting of Active Biotech AB (publ) is to be held on Thursday, May 17, 2018 at 5:00 p.m. at the company's premises at Scheelevägen 22, Lund, Sweden. Shareholders who wish to participate in the Meeting must (a) be recorded in the register of shareholders maintained by Euroclear Sweden AB on Friday, May 11, 2018, and (b) notify the company of their intention to participate in the Meeting not later than Friday, May 11, 2018.

Shareholders who have trustee-registered shares must temporarily re-register the shares in their own name with Euroclear Sweden to be entitled to participate in the Meeting. This registration must be completed not later than Friday, May 11, 2018. Accordingly, shareholders must inform the trustee of this request in ample time prior to this date.

Notice of participation

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

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

Active Biotech in brief

Active Biotech develops novel pharmaceuticals in the areas of neurodegenerative diseases and cancer where the immune system plays a crucial role. Our project portfolio contains both small molecules that are orally active immunomodulatory agents and antibody based immunotherapy. Laquinimod, licensed to Teva Pharmaceutical Industries Ltd., is in clinical Phase II development for the treatment of Huntington's disease, a rare neurodegenerative disease with a high medical need. ANYARA, licensed to NeoTX Therapeutics Ltd., is being developed to treat solid tumors. In addition, activities are conducted to identify strategic and competent partners for ensuring the continued development of tasquinimod in multiple myeloma, paquinimod for systemic sclerosis and the early preclinical projects in the SILC program.

Laquinimod is an oral immunomodulatory investigational drug with a novel mechanism of action, preventing neurodegeneration and inflammation in the central nervous system. Laquinimod is being developed for daily treatment of Huntington's disease, a rare neurodegenerative disease.

Currently, a Phase II study in Huntington's disease is ongoing with results expected in second half of 2018. Laquinimod has been granted orphan drug designation for this indication by the FDA, which provides for seven years of market exclusivity in the event of future registration.

Active Biotech has an agreement with the Israeli company Teva Pharmaceutical Industries Ltd since 2004 covering the worldwide development and commercialization of laquinimod.

ANYARA is a tumor-targeting immunotherapy that enhances the ability of the immune system to recognize and kill tumor cells. Active Biotech has an agreement with NeoTX Therapeutics Ltd since October 2016 for the global development and commercialization of ANYARA for the treatment of cancer.

Preparations are in progress to commence a clinical trial of ANYARA combined with a PD-1 checkpoint inhibitor in patients with advanced cancer.

Tasquinimod is a once-daily, oral immunomodulatory compound that reduces a tumor's ability to grow and spread. Tasquinimod is being developed for the treatment of multiple myeloma, a rare form of blood cancer with a high medical need. Patents in key markets have been granted, providing protection for the use of tasquinimod in malignant blood disorders, specifically acute forms of leukemia and multiple myeloma, until 2035. Furthermore, the FDA has granted orphan drug designation for tasquinimod for the treatment of multiple myeloma, which provides for seven years of market exclusivity in the event of future registration.

Tasquinimod shows compelling data in experimental models of multiple myeloma and the next step is to confirm proof of concept in a clinical Phase I/II study. Active Biotech is now seeking a collaboration partner for the further development of tasquinimod.

SILC (S100A9 Inhibition by Low molecular weight Compounds) is a preclinical immuno-oncology project focused on S100A9 as the target molecule for the treatment of cancer.

S100A9 is expressed in the tumor microenvironment and is involved in the development of cancer through recruitment and activation of specific immune cells that counteract the T cells' ability to attack and eradicate the tumor. S100A9 is also involved in the establishment of pre-metastatic niches and in the formation of new blood vessels, which provide nutrition and oxygen into the growing tumor.

Small substances that block the function of S100A9 could represent a new therapeutic alternative to help the body's own immune system fight cancer.

Chemical libraries of substances have been screened for binding to this target molecule and lead substances with good properties for further development have been identified. Three international patent applications have been filed for the purpose of obtaining patent protection for three, chemically unrelated, substance groups, and patents from two patent families have been granted to date in Europe and the US.

Active Biotech is seeking a collaboration partner for the further development of the project.

Paquinimod is a once-daily, oral immunomodulatory compound in development for treatment of systemic sclerosis, a rare autoimmune disease of the connective tissue with a high unmet medical need.

Paquinimod shows potent effects on fibrosis and inflammation in several experimental models of systemic sclerosis and has been granted orphan drug designation in both the EU and the US, which provides for ten and seven years, respectively, of market exclusivity in the event of future registration.

Active Biotech is seeking a collaboration partner with expertise to further develop paquinimod in systemic sclerosis.

2017 Comments from the CEO

2017 was the year that we were looking forward to positive results with laquinimod from the two ongoing MS studies. To our disappointment and that of many others, these expectations were not realized. We announced with our partner Teva in May that the primary endpoint in the CONCERTO study in relapsing remitting MS (RRMS) – reducing disability progression in patients measured by EDSS – had not been met. This was a regrettable result that was crucial to the further development of laquinimod in MS. The results from the ARPEGGIO Phase II study of laquinimod in primary progressive MS (PPMS) were announced in December. The study did not show any difference for the primary endpoint of brain atrophy between the group that received laquinimod treatment and the group given a placebo. Accordingly, the results could not justify continued clinical development of laquinimod in PPMS. All in all, this meant that following a comprehensive program TEVA ended the development of laquinimod in MS. However, the clinical development of laquinimod in Huntington's disease will continue and the Phase II study of LEGATO-HD is progressing according to plan with results expected in the autumn of 2018.

During the year, we demonstrated together with NeoTX, our partner for ANYARA, that the combination of ANYARA and an immune checkpoint inhibitor, for example, Keytruda, generated clear additional effects in preclinical tumor models. These results support both new patent applications and the future clinical development of ANYARA. Preparations are now being made to commence a clinical study in ANYARA toward the end of 2018.

In our other projects, we pursued commercial and value-creating activities in 2017 to support continued development and partnership agreements.

Financing

In February 2018, the Board of Directors decided to implement a new rights issue of approximately SEK 48 million before issue costs. The rights issue is being conducted to ensure financial sustainability in order to await the outcome of clinical studies and to conduct negotiations with partners around the projects.

The rights issue was over subscribed by approximately 30 percent and provides the company with approximately SEK 48 million before issue expenses. The company's existing cash and cash equivalents and liquidity supplement from the ongoing sale of the company's property are expected to finance operations according to the current business plan.

Laquinimod

The CONCERTO study was designed based on the results of the two previously conducted Phase III studies, ALLEGRO and BRAVO in RRMS. In these studies, laquinimod displayed an explicit effect on slowing disability progression (Confirmed Disease Progression, CDP) when assessed with the Expanded Disability Status Scale (EDSS). Being able to evaluate the effect as a primary endpoint in a major study was attractive since it could give laquinimod advantages in the market compared with registered therapies. Contrary to previous studies, the results of CONCERTO showed no effect on CDP, although the secondary relapse-related endpoints and MRI parameters were met in line with previous studies. Following extensive analysis of the study data from all Phase III trials, there is still no full explanation for the results of the CONCERTO study. In general, it can be said that CDP is a challenging clinical endpoint since relatively few such events are normally achieved during a limited study period, which could have contributed to the lack of effect on the primary results of the study.

"With patents secured in key markets and orphan drug status granted for tasquinimod in multiple myeloma, we have created highly favorable conditions for the continued advancement of tasquinimod."

The ARPEGGIO Phase II study was a proof of concept study, whose primary aim was to show the therapeutic benefit of laquinimod in patients with PPMS. The primary endpoint, brain atrophy, as defined by percent brain volume change from baseline to week 48, was not met in the study. The time to CDP, a secondary endpoint, was also not met. The study results were deemed not to justify continued development of laquinimod in PPMS. Ultimately, this meant that Teva will not continue the development of laquinimod in MS. This decision is naturally a disappointment after extensive clinical development in MS where laquinimod displayed clinical efficacy combined with a favorable safety profile. At the same time, only one of the three pivotal studies achieved the primarily endpoint, which significantly disadvantaged the regulatory potential for laquinimod in MS.

Teva will continue to develop laquinimod in Huntington's disease, a rare neurodegenerative disease, with a very high medical need for treatment targeting the actual disease. Laquinimod has shown positive effects in preclinical models for Huntington's that could be of importance in slowing the neurodegenerative process that is typical for Huntington's disease. The LEGATO-HD Phase II study is the first study with laquinimod in this indication and is randomized and placebo-controlled and evaluates the daily doses of 0.5 and 1.0 mg laquinimod as a potential therapy for patients with Huntington's disease. The study was fully enrolled before the summer 2017 and the results will be available in the second half of 2018. At the beginning of the year, the FDA granted laquinimod orphan drug status for the treatment of Huntington's disease, which allows seven years of market exclusivity in the event of future registration.

ANYARA

Extensive preclinical data was generated in the ANYARA project during the year, demonstrating the combination effects of ANYARA and immune checkpoint inhibitors such as Keytruda which is a PD-1 inhibitor. The results support the hypothesis that ANYARA can enhance the effect of such therapy by increasing the immune system's ability to recognize the tumor. The preclinical results led to new patent applications to protect the use of ANYARA in this combination. If these patents are granted, they would provide potential extension of ANYARA patent protection until 2036. Preparations for a clinical study of ANYARA in combination with a PD-1 inhibitor in patients with various forms of advanced cancer are ongoing and the study is scheduled to commence in the second half of 2018.

Tasquinimod

In the past year, tasquinimod was granted patents for use in multiple myeloma in both Europe and the US. With patents secured in key markets until 2035 and orphan drug status granted in multiple myeloma, we have now created highly favorable conditions for the continued advancement of tasquinimod. Although new treatments have greatly improved prognosis and survival of multiple myeloma patients, there is still a significant need for new drugs with novel mechanisms of action, such as tasquinimod. Discussions with clinical experts and potential partners in relation to the continued clinical development and commercialization of the project are ongoing.

SILC and Paquinimod

During the past year, we secured product patents in the US for two of three patent families in the SILC project. Work aimed at clarifying the role of S100A9 as a target molecule in immuno-oncology is proceeding and data from the SILC project was presented at the scientific meeting "Tumor Models" in London at the beginning of December. We are currently focusing on demonstrating proof of concept for SILC substances in humanized tumor models, which is important for the continued commercial activities in the project.

Commercial activities are in progress in the paquinimod project to identify a new partner for continued clinical development in systemic sclerosis, where paquinimod has orphan drug designation in both the US and Europe.

Closing words

As I look back at the past year, I can say that it has been a challenging year with decisive, negative events in the MS project with laquinimod together with our partner Teva. At the same time, I am pleased with what we have achieved in other projects, where we attained important milestones for continued development. In 2018 I am looking forward to the results of the LEGATO study and recommencing the clinical development of ANYARA. Furthermore, we will focus on continuing to develop value in the tasquinimod, paquinimod and SILC projects.

In conclusion, I would like to thank all of our employees and shareholders for your loyal support over the past year.

Helén Tuvesson, CEO

Directors' Report

The Board of Directors and President & CEO of Active Biotech AB (publ), Corporate Registration Number 556223-9227, hereby submit their Annual Report and consolidated financial statements for the fiscal year January 1, 2017 to December 1, 2017.

Active Biotech conducts operations as a limited liability company and has its registered office in Lund, Sweden.

Group

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

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

The company's business

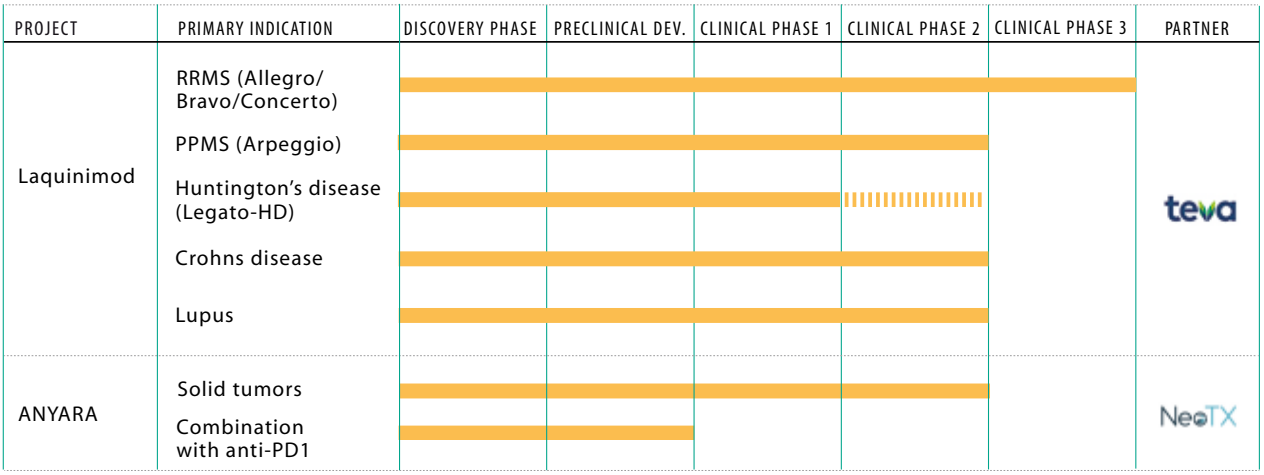
Active Biotech is a company that focuses on pharmaceutical development in medical fields in which the immune system plays a central role. The project portfolio primarily includes projects for the development of drugs for the treatment of neurodegenerative diseases and cancer.

Active Biotech has pioneered the development of the quinoline class of compounds, which shows attractive immunomodulatory properties relevant to both neuro-degeneration and cancer. The company possesses unique expertise and broad intellectual property in the field, which includes a range of composition of matter and other patents as well as technology to fully exploit the potential of the platform. Furthermore, the company possesses unique expertise and broad intellectual property within the ANYARA project, a tumor-targeting immunotherapy.

Active Biotech is awaiting the study results from the Phase II LEGATO-HD study relating to laquinimod in Huntington's disease, which is being conducted by Teva Pharmaceuticals. The study results are expected to be available in the second half of 2018. Furthermore, the company's partner NeoTX is expected to commence a Phase Ib study of ANYARA combined with a PD-1 inhibitor in patients with advanced cancer in the latter part of 2018. The company's RhuDex project is out-licensed to MediGene AG for continued clinical development. As regards the other projects in Active Biotech's project portfolio, commercial activities are being conducted to ensure continued value development and out-licensing.

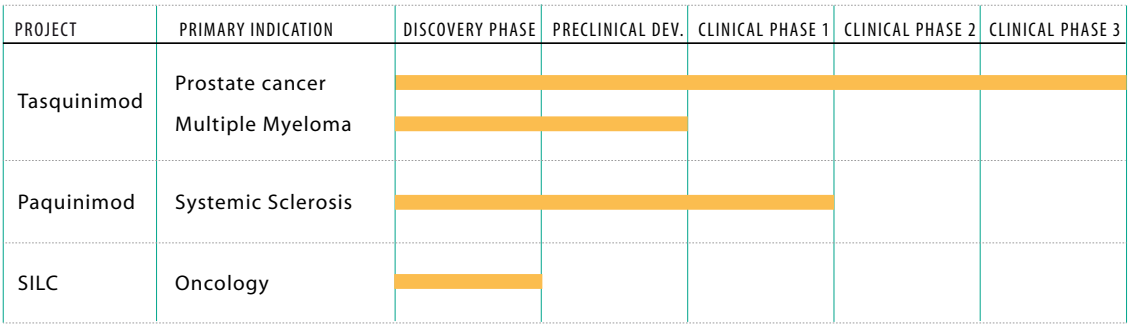
Project overview:

Clinical development projects



Striped = Ongoing

Out-licensing projects



Since its formation in 1998, the company has invested approximately SEK 4.2 billion in pharmaceutical development, of which approximately two-thirds of this amount in the tasquinimod, ANYARA and laquinimod projects. The three projects have generated about SEK 670 M in partner revenues to date. In the current agreements with Teva and NeoTX, Active Biotech can – provided that the projects reach market – receive a further USD 70 M and USD 71 M, respectively, in clinical, regulatory and commercial milestone payments. In addition, the company will receive tiered, double-digit royalties subject to future sales performance.

Progress of each project:

Laquinimod

The project has focused on the treatment of multiple sclerosis (MS), but is currently being evaluated as a potential treatment for patients suffering from Huntington's disease.

Progress of the project 2004–2017:
Following the completion of Phase I and Phase II trials by Active Biotech on a proprietary basis, an agreement was signed with Teva Pharmaceutical Industries Ltd (Teva) in June 2004 covering the development and commercialization of laquinimod.

Development and commercialization agreement with Teva:
According to the agreement, Teva performs and funds the clinical development of laquinimod. If all the clinical and commercial milestones are achieved, Teva will pay a total of USD 92 M to Active Biotech, of which USD 22 M has been received since the signing of the agreement until year-end 2017. In addition to milestone payments, Active Biotech will also receive tiered royalty payments on sales. These will start just above 10 percent and end just below 20 percent, with the exception of sales of laquinimod in the Nordic/Baltic regions, where Active Biotech will receive a fixed royalty rate that is more than double that of the highest level in the global agreement.

Clinical development:
In 2007, the first clinical Phase III study ALLEGRO (assessment of oral laquinimod in preventing progression of multiple sclerosis) commenced, which was a global, pivotal, 24-month, double-blind trial. The purpose was to evaluate the efficacy, safety and tolerability of laquinimod versus placebo in the treatment of relapsing-remitting multiple sclerosis (RRMS).

In **December 2010**, Teva announced that the ALLEGRO study, encompassing about 1,100 patients, had achieved its primary clinical endpoint at the same time as a highly favorable clinical safety profile was preserved. Laquinimod showed a statistically significant 23-percent reduction in annualized relapse rate (p=0.0024), the primary clinical endpoint, along with a significant 36-percent reduction in the risk of confirmed disability progression, as measured by Expanded Disability Status Scale (EDSS) (p=0.0122), compared with placebo. Treatment with laquinimod was also associated with a significant reduction in brain tissue loss, as measured by a 33-percent reduction in progression of brain atrophy (p<0.0001). On **August 1, 2011**, the initial results were announced from the Phase III study BRAVO (benefit-risk assessment of Avonex® and laquinimod), which was designed to evaluate the efficacy, safety and tolerability of laquinimod compared with placebo and to provide a benefit-risk assessment comparing laquinimod and a reference arm of Interferon beta-1a (Avonex®). The BRAVO trial was a 24-month, global, multicenter, randomized, placebo-controlled trial with parallel groups, in which the effects of laquinimod were compared with placebo.

The BRAVO findings supported the direct effect of laquinimod in the central nervous system (CNS) and were in line with the results of the first Phase III trial, ALLEGRO. The BRAVO study demonstrated a trend of reducing the annualized relapse rate in laquinimod-treated patients compared to placebo, the primary endpoint of the study, but did not reach statistical significance (p=0.075). The reduction of disability progression measured by EDSS also showed a trend in favor of laquinimod without reaching statistical significance. Furthermore, a significant reduction was observed in brain tissue loss in connection with treatment with laquinimod compared to placebo. The randomization process for BRAVO was adequately performed and according to the study protocol. However, placebo and treatment study groups showed dissimilarity in two baseline magnetic resonance imaging (MRI) characteristics. When this imbalance was corrected according to a standard and pre-specified sensitivity analysis included within the original statistical analysis plan (SAP), laquinimod demonstrated a significant reduction in the annualized relapse rate (21.3 percent, p=0.026), as well as a significant reduction in the risk of disability progression measured by EDSS (33.5 percent, p=0.044). Also in this analysis, laquinimod demonstrated a significant reduction of brain atrophy (27.4 percent, p<0.0001). Additionally, as in ALLEGRO, the BRAVO study showed that laquinimod has a very favorable safety and tolerability profile. In **November 2011**, Teva announced that, following discussions with the US Food and Drug Administration (FDA), it had decided to carry out one additional clinical study prior to filing a new drug application (NDA) in the US. On **July 17, 2012,** it was announced that the European Medicines Agency (EMA) accepted the marketing authorization application (MAA) for laquinimod for treatment of RRMS and that the scientific review had thus commenced. This acceptance of the EMA filing for review triggered a milestone payment of USD 5 M from Teva.

The marketing authorization application submission was supported by a pooled analysis of data from the ALLEGRO and BRAVO trials involving more than 2,400 patients treated over a period of two years.

In **August 2012**, Teva announced that a third Phase III laquinimod trial for the treatment of RRMS would be launched. The trial, CONCERTO, is evaluating two doses of laquinimod (0.6 mg and 1.2 mg) and encompasses about 2,100 patients being treated for up to 24 months. The primary outcome measure of the study is confirmed disability progression as measured by EDSS. On **October 22, 2012**, positive Phase II clinical data was announced for laquinimod for the treatment of active Crohn's disease (CD) at the 20th United European Gastroenterology (UEG) Week Conference. The findings demonstrated that treatment with laquinimod 0.5 mg per day resulted in a robust, early and consistent effect on remission (48.3 percent vs. 15.9 percent of patients, respectively) and response rates (62.1 percent vs 34.9 percent of patients, respectively) in patients with moderate-to-severe CD versus placebo. On **March 3, 2013**, it was announced that the first patient had been enrolled in the CONCERTO study – the third Phase III placebo-controlled study designed to evaluate the efficacy, safety and tolerability of laquinimod in patients with RRMS.

On **June 12, 2013**, positive results from a Phase IIa study of laquinimod in active lupus nephritis were reported. The study was designed to assess safety, tolerability and clinical efficacy of laquinimod in 46 patients with active lupus nephritis. The clinical trial was a multicenter, double-blind, placebo-controlled, exploratory study of 46 patients with active lupus nephritis that evaluated laquinimod (0.5 mg and 1.0 mg per day) versus placebo in combination with standard of care treatment. The study showed that at 24 weeks, 62.5 percent of patients who received 0.5 mg per day of laquinimod achieved renal response, compared to 33.3 percent of patients who were administered placebo. Reported adverse events (AEs) were comparable in both the active treatment and placebo patient groups.

On **January 24, 2014**, laquinimod received a negative opinion by the Committee for Medicinal Products for Human Use ("CHMP") of the EMA. The CHMP's opinion was based on the view that laquinimod's positive effect on reducing relapses did not outweigh the potential risks. Although the CHMP found that laquinimod has a positive effect on slowing disability in MS patients, this finding did not alter the decision. In the risk assessment, the CHMP focused on findings in animal studies, performed in parallel with the pivotal clinical trials, relating to the potential risk of fetal damage and the potential increased risk of cancer. None of these effects have been observed in the comprehensive patient material, comprising 7,490 patient years in total, with some patients being exposed for more than seven years and tolerating the treatment well. Teva requested a re-examination of the CHMP's opinion.

On **May 23, 2014**, it was announced that CHMP of the EMA confirmed its **January 24, 2014** risk-benefit opinion and therefore recommended against approval for the treatment of RRMS in the EU at this time. Teva and Active Biotech remained fully committed to the laquinimod clinical development program for treatment of multiple sclerosis and continued to evaluate the CHMP feedback to determine potential adjustments and additions to the current clinical development program. On **August 18, 2014**, it was announced that Teva will initiate a Phase II clinical trial to evaluate the efficacy and safety of laquinimod for the treatment of Huntington's disease. On **November 4, 2014**, it was announced that Teva will expand the clinical development program for laquinimod by initiating the ARPEGGIO study that will evaluate the potential of laquinimod for the treatment of primary progressive multiple sclerosis (PPMS). It was also announced that the first patient had been screened in the LEGATO-HD study that will evaluate laquinimod in Huntington's disease.

On **April 23, 2015**, it was announced that the first patient had been enrolled in the Phase II study ARPEGGIO. The study evaluates two doses of laquinimod (0.6 mg and 1.5 mg per day) compared with placebo in patients with PPMS. The study includes about 375 patients in the US, Canada and Europe. The primary endpoint of the study is brain atrophy, defined as the percentage of brain volume change as measured by MRI. On **June 25, 2015**, it was announced that the Phase III study, CONCERTO, had been fully enrolled and that study completion would occur when either 260 EDSS events are reached or all patients complete 24 months of study treatment.

On **January 4, 2016**, it was announced that the high dose groups of laquinimod in studies in multiple sclerosis (CONCERTO and ARPEGGIO) had been discontinued after the occurrence of cardiovascular adverse events, none of which were fatal, in eight patients. The change was made at the recommendation of the Data Monitoring Committee (DMC) overseeing the two active clinical studies in MS. The DMC identified an imbalance in the number of cardiovascular adverse events in the studies.
Seven events were observed in patients receiving laquinimod daily at 1.2 mg for treatment of relapsing remitting MS (RRMS) in the Phase III CONCERTO trial. No events occurred in the 0.6 mg or placebo groups. CONCERTO had 2,199 patients with a total of 3,070 years of patient experience. One event was observed in the 1.5mg daily-dose arm of the Phase II ARPEGGIO trial in primary-progressive MS (PPMS). ARPEGGIO had enrolled 191 patients and has 35 years of patient experience. Teva notified trial sites to discontinue the higher doses immediately in both trials. Both trials, CONCERTO and ARPEGGIO, continued the lower-dose arms (0.6 mg daily) according to plan, and participants in the trials were provided with an update to confirm re-consent for participation. On **January 11, 2016**, it was announced that Teva changed the trial design of a Phase II study of laquinimod in

Huntington's disease. The amendment consisted of dropping the highest of three doses (1.5 mg per day) in the trial while keeping two remaining active doses (0.5 and 1 mg per day) unchanged. This was a precautionary measure in the interest of patient safety being suggested by Teva to the Data Safety Monitory Board (DSMB) for the LEGATO-HD trial. The DSMB accepted the recommendation after reviewing data which observed cardiovascular incidents in patients receiving the high doses of laquinimod in two multiple sclerosis trials as reported on January 4, 2016. No cardiovascular events were observed for any dose of the LEGATO-HD trial. Teva will continue in its commitment to study laquinimod in Huntington's disease. The mechanism of the cardiovascular events in the MS trials remains unknown. Although no specific time-to-event patterns have been identified, cardiovascular risk factors and demographics may play a role.

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

On May 5, 2017, it was announced that the primary endpoint in the Phase III CONCERTO study in RRMS of time to three-month confirmed disability progression (CDP), as measured by the Expanded Disability Status Scale (EDSS), had not been met, nor had the endpoint been met after six and nine months of treatment. However, other study results showed that the secondary endpoints were achieved accordingly with previous studies. Change in brain volume – an indicator of disability progression over time – showed a 40-percent reduction compared to baseline, versus placebo at month 15 ($p < 0.0001$). Time to first relapse was extended ($p = 0.0001$). Annualized relapse rate showed a 25-percent risk reduction ($p=0.0001$). The number of gadolinium-enhancing T1 lesions at month 15 demonstrated a 30-percent reduction ($p=0.004$).

Laquinimod 0.6 mg in RRMS: Effect compared to placebo

	ALLEGRO	BRAVO*	CONCERTO
Relapse rate	23%	21.3%	25.7%
Disability progression (3 months CDP)	36%	33.5%	6.3%
Brain atrophy	32.8%	27.4%	40%

* After corrections according to the predefined statistical analysis plan.

The excellent clinical safety profile of laquinimod 0.6 mg daily, which has been previously studied with over 12,000 patient-years of exposure, was confirmed in the CONCERTO trial. As previously announced, in light of the results from CONCERTO, Teva does not intend to continue the development of laquinimod in RRMS.

The initial results from the Phase II study of laquinimod in PPMS were communicated on **December 1, 2017.** The primary endpoint, brain atrophy, as defined by percent brain volume change (PBVC) from baseline to week 48, was not met after daily oral doses of 0.6 mg laquinimod. Likewise, the secondary endpoint, time to confirmed disability progression (CDP), was not met. However, a reduction in new T2 lesions was observed in those treated with laquinimod 0.6 mg.

The clinical safety profile for laquinimod 0.6 mg daily in PPMS patients was similar to that seen in patients with relapsing remitting MS. The most common adverse events reported by patients treated with laquinimod 0.6 mg daily were nasopharyngities, headache, upper respiratory tract infection and back pain.

Teva will not continue the development of laquinimod in MS.

Tasquinimod

Significant events during the period 2004 – 2017:
In the tasquinimod project, Active Biotech is developing an immunomodulatory substance, tasquinimod, which affects the tumor's ability to grow and spread. Tasquinimod was primarily developed for the treatment of prostate cancer and has completed Phase I-III clinical trials, but is now being evaluated for clinical development in multiple myeloma.

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

double-blind, placebo-controlled Phase III trial in patients with metastatic castrate-resistant prostate cancer (CRPC). The aim of the study is to confirm tasquinimod's effect on the disease, with radiological progression-free survival (PFS) as the primary clinical endpoint and overall survival (OS) as secondary clinical endpoint. On **April 18, 2011**, it was announced that Active Biotech had entered into abroad partnership with Ipsen to co-develop and commercialize tasquinimod.

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

On **May 21, 2012**, it was reported that 600 patients were randomized in the Phase III trial of tasquinimod in patients with CRPC. Under the agreement, Active Biotech received a milestone payment from Ipsen amounting to EUR 10 M.

On **October 3, 2012**, Ipsen announced the launch of a switch maintenance Phase II trial with tasquinimod in CRPC patients and, on October 19, the company announced its intention to initiate a proof of concept study into four cancer forms: advanced or metastatic hepatocellular, ovarian, renal cell and gastric carcinomas. On **December 10, 2012**, Active Biotech and Ipsen announced that the tasquinimod Phase III trial had been fully enrolled, encompassing a total of 1,245 patients at about 250 hospitals in 37 countries, which triggered a contractual milestone payment from Ipsen of EUR 10 M. On **April 25, 2013**, Active Biotech and Ipsen announced that the analysis plan for the ongoing Phase III study (10TASQ10) had been updated. In the updated analysis plan, the companies plan to conduct the primary PFS analysis for the 10TASQ10 trial in 2014, at the same time as the first interim OS analysis. On **October 9, 2013**, it was announced that Active Biotech, under the terms of the co-development and commercialization agreement on the candidate drug tasquinimod, had received a milestone payment of EUR 12 M from Ipsen. In **February 2014**, Ipsen launched a randomized, double-blind, placebo-controlled Phase III study of tasquinimod in chemo-naive CRPC patients in Asia. On **September 27, 2014**, Ipsen announced the preliminary results of the clinical Phase II proof of concept study in four cancer indications. The results do not support the further development of tasquinimod for the treatment of patients with advanced ovarian, renal cell, liver or gastric carcinomas.

The results of the Phase III study in tasquinimod were presented on **April 24, 2015**. While the study showed that tasquinimod reduced the risk of radiographic cancer progression or death compared to placebo (rPFS, HR=0.69, CI 95%: 0.60 – 0.80) in patients with CRPC who have not received chemotherapy, tasquinimod did not extend overall survival (OS, HR=1.09, CI 95%: 0.94-1.28). Efficacy results together with preliminary safety data did not support positive benefit risk balance in this population. Therefore, Active Biotech and Ipsen decided to discontinue all studies in prostate cancer. On **September 28, 2015**, the final results from the tasquinimod Phase III trial were presented at the European Cancer Congress (ECC 2015). Final results showed that tasquinimod treatment resulted in a prolonged radiographic progression-free survival (rPFS), 7.0 vs. 4.4 months (central assessment), similar to an earlier Phase II study. However, the positive effect on rPFS did not translate into an improved OS. Tasquinimod safety was in general manageable and similar to what was observed during the earlier Phase II study.

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

On **January 9, 2017,** Active Biotech announced that the European Patent Office had granted patent for treatment of multiple myeloma. The patent was granted European Patent No. 3041472 on **February 1, 2017** and

has a duration extending until 2035. On **April 12, 2017,** it was announced that the FDA had granted tasquinimod orphan drug status for the treatment of multiple myeloma.

Tasquinimod shows compelling data in experimental models of multiple myeloma and the next step is to confirm proof of concept in a clinical Phase I/II study. Active Biotech is now seeking a collaboration partner for the further development of tasquinimod.

ANYARA

In the ANYARA project, Active Biotech developed tumor directed immunotherapy that stimulates the immune system to eradicate tumor cells.

Progress of the project 2006–2017:
In 2006, three clinical Phase I studies of ANYARA for the treatment of advanced non-small cell lung cancer, renal cell carcinoma and pancreatic cancer were successfully concluded. The median survival of 26.2 months observed for patients with advanced renal cell cancer and treated with ANYARA was longer than expected. Results from two Phase I studies where ANYARA was studied both as a single agent (monotherapy) and in combination with an established tumor therapy (Taxotere). The results showed that ANYARA was well tolerated both as monotherapy and in co-administration. In **July 2007** , ANYARA was granted orphan medicinal product status, for the indication renal cell cancer, by the European Medicines Agency's (EMA) expert committee. A combined Phase II/III trial for the treatment of renal cell cancer was initiated at the end of 2006 at about 50 clinics in Europe. The trial was a randomized study of ANYARA in combination with interferon-alpha, compared with only interferon-alpha, in patients with advanced renal cell cancer.

The primary endpoint for this study was prolonged overall survival (OS) and it included a total of 513 patients. In **May 2008**, following the enrollment of approximately 250 patients in the trial, an interim analysis was conducted with positive results. The study was fully enrolled in June 2009. In **January 2013**, the initial results were presented from the concluded Phase II/III clinical study. The results showed that the ANYARA Phase II/III study did not achieve its primary endpoint of showing a prolonged OS in the intention to treat (ITT) population. A subgroup, comprising about 25 percent of the patients with low/normal levels of base line IL-6 and expected antibody levels against the anti-superantigen element of ANYARA, showed a statistically significant treatment advantage on both OS and progression-free survival (PFS). OS was 63.3 months for the group that received ANYARA combined with interferon-alpha vs. 31.1 months for the group that received interferon-alpha alone (p=0.020, HR=0.59) and PFS 13.7 vs. 5.8 months (p=0.016, HR=0.62). In North America and Western Europe, this subgroup accounts for 40-50 percent of the total number of advanced renal cell cancer patients. The safety profile was favorable and in line with that observed earlier. On **September 12, 2013**, it was announced that Professor Tim Eisen, Department of Oncology, Cambridge University Hospitals NHS Foundation Trust, UK, had presented a new and more detailed analysis at the European Cancer Congress 2013 (ECCO) held in Amsterdam, the Netherlands, that provides further support to the previous findings that low baseline levels of pre-formed antibodies against ANYARA or low levels of the cytokine IL-6, independently predict anti-tumor efficacy after ANYARA+Interferon-alpha treatment. The analysis showed clear trends of increased OS in patients with decreasing IL-6 or anti-ANYARA antibodies. Based on the results of the completed Phase III study in which ANYARA displayed a survival benefit in a subgroup of patients, Active Biotech discussed the continued development of ANYARA with the FDA and EMA in 2013.

On **October 26, 2016**, it was announced that a licensing agreement had been entered into with NeoTX Therapeutics Ltd (NeoTX) for Active Biotech's investigational compound Naptumumab estafenatox ("ANYARA") for cancer immunotherapy.

NeoTX will be responsible for and finance the world-wide clinical development and commercialization of ANYARA. The total deal value amounts to USD 71 M and is contingent upon achievement of clinical, regulatory and commercial milestones. Active Biotech will receive USD 250,000 as an initial payment. In addition, NeoTX will pay Active Biotech tiered, double-digit royalties on future market sales.

In 2017, an extensive preclinical program was carried out in cooperation with the company's partner, NeoTX, focusing on demonstrating the combination effects of ANYARA and checkpoint inhibitors, primarily PD-1 inhibitors. New patent applications have been submitted to protect the use of ANYARA in this combination. If granted, patent protection will be extended until 2036.

Preparations for a clinical study of ANYARA combined with an immunostimulating PD-1 inhibitor are currently underway. The trial will be carried out in patients with a variety of solid tumor indications that have poor or no response to anti PD-1 treatment, a combination strategy in line with ANYARA's mode of action and supported by preclinical data. The trial is scheduled to start in the second half of 2018.

Paquinimod

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

Progress of the project 2004–2017:
The first clinical Phase I dose-escalation study, comprising 30 healthy volunteers, was started at the Karolinska Hospital in Stockholm, Sweden, at the end of 2004 and was successfully completed in 2005. The results showed that paquinimod is well tolerated at all of the tested dosage levels in single and multiple doses and that the compound is suitable to be administered as an oral, daily treatment. The clinical development program continued with a Phase Ib trial in systemic lupus erythematosus (SLE) patients, which commenced in December 2005. The study primarily documented safety and pharmacokinetic properties, but also monitored a number of biological markers to determine the effect of paquinimod on disease progression. The study was concluded in 2008 and data from the trial confirmed the previously reported favorable safety profile, and demonstrated effects on markers for the SLE disease. During 2008 and 2009, follow-up data from the concluded Phase Ib trial was presented at scientific conferences. The explorative clinical study that commenced in 2009 comprising 13 SLE patients in Sweden and Denmark was concluded in 2010 and a reduction in disease activity was observed in several patients. In 2010, Active Biotech decided to initiate development of paquinimod to address the indication systemic sclerosis, a rare autoimmune disease for which paquinimod was granted orphan medicinal product status in **February 2011** in Europe. An explorative clinical study in systemic sclerosis was initiated in December 2011 and included nine patients. The primary endpoint of the study is the effect on biomarkers that correlate with disease activity. The clinical study in systemic sclerosis was concluded in the latter part of 2012.

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

Commercial activities to out-license paquinimod are being conducted.

RhuDex®

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

Progress of the project 2004–2017:
Following successful preclinical development work, a candidate drug was selected in 2004 under the name of RhuDex, an orally administered small molecule primarily intended for the treatment of rheumatoid arthritis (RA). Phase I studies of RhuDex commenced during the spring of 2005, yielding a small milestone payment for Active Biotech. In **March 2006,** the company could report that MediGene had successfully concluded two Phase I studies in which safety, tolerability and pharmacokinetic properties had been studied in healthy volunteers. A Phase IIa dose-escalation study in 35 RA patients was initiated in 2007 and, in 2008, positive data from the trial was reported. Further preclinical trials were completed in 2010. In 2013, a clinical Phase Ia study was initiated for treatment of primary biliary cirrhosis (PBC), a chronic liver disease. This is being carried out to confirm the mode of action of RhuDex in autoimmune diseases and facilitate the continued development of the drug. In **March 2014**, MediGene signed an agreement with the company Dr. Falk Pharma GmbH for the development and commercialization of RhuDex in hepatology and gastroenterology.

SILC

Active Biotech's SILC project was initiated in 2008. SILC stands for "S100A9 Inhibition by low molecular weight Compounds," and the project is focused on S100A9 as the target molecule for the treatment of cancer.

Progress of the project 2008 – 2017:
Chemical libraries of substances have been screened for binding to this target molecule and lead substances with good properties for further development have been identified. Three priority applications have been filed for the purpose of obtaining patent protection for three, chemically unrelated, substance groups.

To date patents have been granted from two patent families in Europe and USA.

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

Comments on the financial development

Condensed income statement with comments

	2013 F.Y.	2014 F.Y.	2015 F.Y.	2016 F.Y.	2017 F.Y.
Net sales	116.0	10.4	16.3	19.0	20.2
Administrative expenses	-16.9	-16.9	-18.0	-15.9	-20.2
Research expenses	-308.1	-221.9	-176.2	-58.2	-49.4
Other operating expenses	-	-	-	-	-53.3
Total operating expenses	-325.0	-238.8	-194.2	-74.1	-122.3
Operating loss	-209.0	-228.4	-177.9	-55.1	-102.5
Loss for the year	-212.1	-231.5	-193.5	-59.6	-108.8

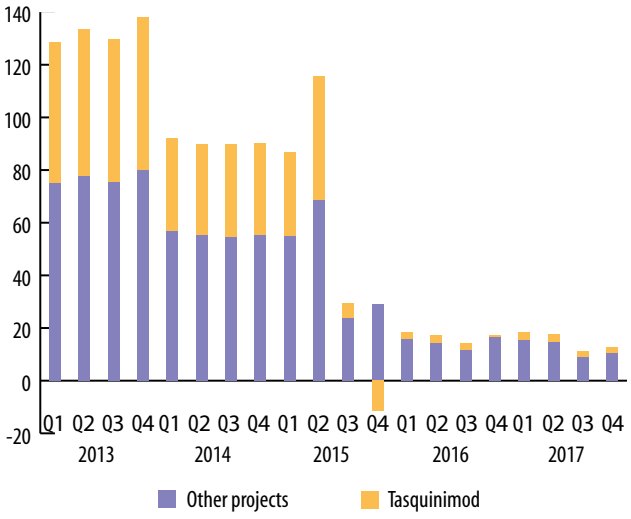
Consolidated net sales for full-year 2017 amounted to SEK 20.2 M (19.0) and included service and rental income of SEK 20.2 M (16.7). In addition, approximately SEK 2.3 M was received in 2016 in license fees when the partnership agreement with NeoTX was signed.

	2013 F.Y.	2014 F.Y.	2015 F.Y.	2016 F.Y.	2017 F.Y.
Revenue from out-licensing and partnership agreements	104.1	–	–	2.3	
Rental revenues	7.0	7.3	9.2	12.8	15.0
Other revenues	4.9	3.1	7.0	4.0	5.2
Total	116.0	10.4	16.3	19.0	20.2

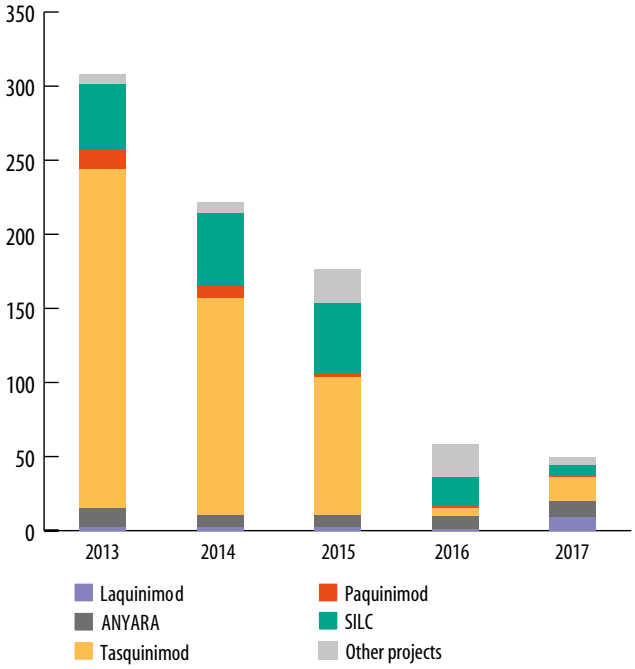
Operating expenses

Research expenses 2013–2017

The company's research expenses for the five-year period between 2013 and 2017 amounted to just over SEK 800 M. Tasquinimod represents about 60 percent of this amount, reflecting the cost of the global clinical Phase III trial with tasquinimod in prostate cancer that was concluded in 2015. No new clinical studies have subsequently been started on a proprietary basis, which is the reason for the lower cost level in 2016 and 2017.



Research expenses per project 2013–2017, SEK M



Expense and earnings trend 2017

Total research expenses for full-year 2017 amounted to SEK 49.4 M (58.2), a 15-percent decline compared with 2016. Expenses for the ongoing research operations primarily represent a virtual organization that has focused its operations on activities that support already out-licensed projects (laquinimod and ANYARA) and increases opportunities for out-licensing the three remaining projects: tasquinimod in multiple myeloma, paquinimod and SILC.

In 2017, tasquinimod's share of total research expenses was about SEK 10.4 M. As a result of NeoTX's licensing of the ANYARA project in 2016, the level of activity and costs increased in the current year, resulting in SEK 16.4 M of costs and resources being allocated to the projects.

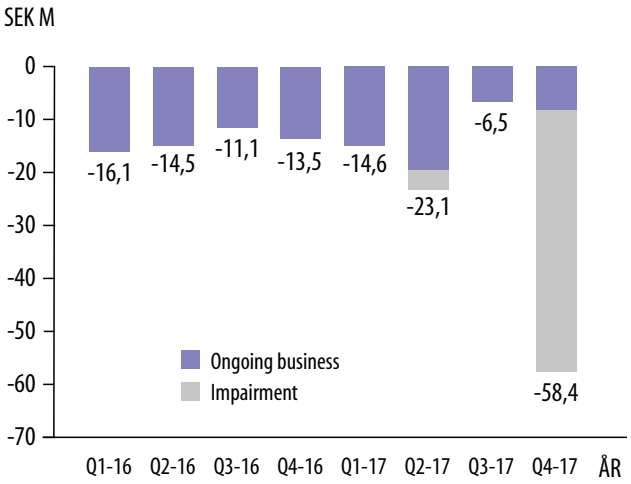
In addition to the clinical development program, the company also pursues the preclinical project SILC, the aim of which is to utilize Active Biotech's own research results generated around a target molecule for the quinoline compounds and their biological mode of action. During 2017, the project focused on strengthening the patent portfolio. The increased allocation of resources to the SILC project in 2017 resulted in an expense of SEK 7.9 M.

Administrative expenses amounted to SEK 20.2 M (15.9), with the increase due in its entirety to accrued expenses for the change of CEO during the year and the associated organizational changes.

Consolidated net financial items amounted to an expense of SEK 7.4 M (expense: 6.7), of which financial income amounted to SEK 0.0 M (0.5) and financial expenses to SEK 7.1 M (7.1). Exchange-rate changes impacting earnings amounted to a loss of SEK 0.3 M (0.0).

Operating loss for full-year 2017 was SEK 102.5 M (loss: 55.1), representing a decline in earnings of SEK 47.4 M compared with the preceding year. The deterioration in earnings was due in full to the provision for costs for the change of CEO, the impairment of the carrying amount of the property owned by the company and provisions for costs for the approved property sale.

Operating profit/loss per quarter 2016–2017 (SEK M)



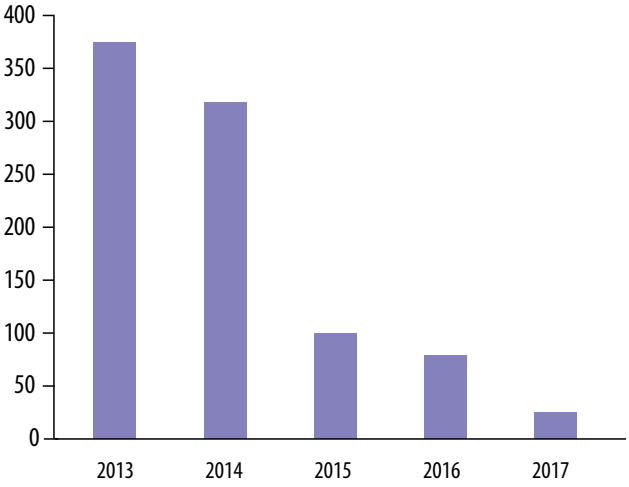
Cash and cash equivalents and financial position

At year-end, cash and cash equivalents totaled SEK 25.2 M (77.7). The company communicated information about its financial position in December 2017. Available liquidity was expected to finance the business until the end of the second quarter of 2018. It was also announced that the sales process initiated by the Board regarding the company's property in Lund was ongoing but had not yet led to completion.

In the company's credit agreement with lending bank, Active Biotech has a covenant that the company's liquidity can not, at any time, fall below SEK 30 million, a level reached by the end of 2017. Due to the covenant breach, the property loan was reclassified to short term loan as of 31 December 2017. In February 2018, the Board decided to propose a new rights issue of no more than SEK 48 million, which together with the liquidity contribution from the planned divestment of the company's property and income from already signed agreements will fund the operations according to current plans. See further information on the new rights issue under "Events after the end of the financial year". In March 2018, the company also agreed with the lending bank that the commitment that liquidity should never fall below SEK 30 M is waived. As a consequence, the parties have agreed on additional terms for the loans, which include a commitment by the company to divest the property Lund Forskaren 1 by the end of 2018, and repay the credits no later than 18 months after the agreement was reached.

The Board of Active Biotech has established a policy for the investment of the Group's cash and cash equivalents, which stipulates that these be invested at low credit risk, primarily in short-term Swedish securities, commercial papers and fixed-income and bond funds with high liquidity. At year-end, cash and cash equivalents totaling SEK 19.7 M were invested in short-term Swedish securities. Interest-bearing liabilities amounted to SEK 210.4 M (216.3), of which SEK 209.4 M (214.7) is represented by a property loan and SEK 1.0 M (1.6) by liabilities to leasing companies. At year-end, consolidated shareholders' equity amounted to SEK 77.7 M (182.6). At the end of the year, the equity/assets ratio for the Group was 25.6 percent, compared with 44.2 percent at year-end 2016.

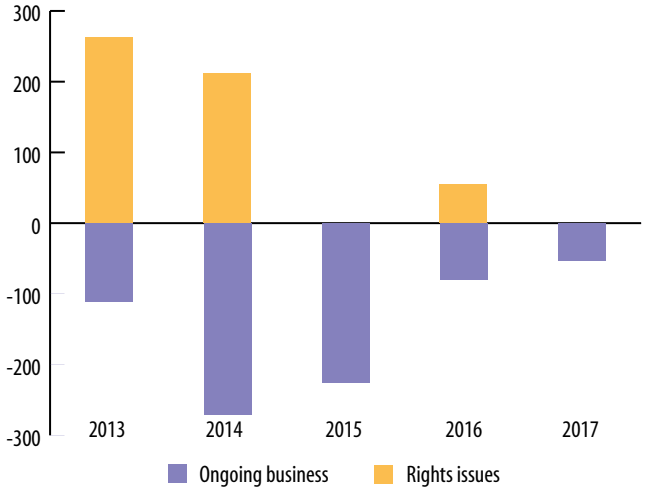
Cash and cash equivalents 2013 – 2017 (SEK M)



Comments on the cash-flow statement

The Group's cash flow for the full-year was a negative SEK 52.5 million (neg: 25.9), of which cash flow from operating activities accounted for a negative SEK 46.4 million (neg: 73.2). Cash flow from financing activities amounted to a negative SEK 6.1 million (pos: 47.2). A rights issue comprising 6,916,022 shares was carried out in 2016, raising proceeds of approximately SEK 53.7 M after issue expenses. Investments in tangible fixed assets amounted to SEK 0.0 M (0.0).

Cash-flow 2013-2017 (SEK M)



Comments on the balance sheet

At year-end 2017, the Group's total assets amounted to SEK 303.8 M (412.9), of which tangible fixed assets (equipment, tools, fixtures and fittings) accounted for SEK 1.7 M (328.1).

Since the Board decided the sale of the property, it has been reclassified from historically being recognized as a fixed asset to being classified as a current asset held for sale in the annual accounts at December 31, 2017. The market value of the company's property Forskaren 1, is estimated at SEK 275.0 M (325.0) at year-end 2017. The company's decision to close its animal facility has resulted in some parts of the property being vacated for a period, giving rise to a higher vacancy rate that led to an impairment requirement of SEK 50.0 M to SEK 275.0 M.

Current assets amounted to SEK 302.1 M (84.8), of which the property was recognized at SEK 271.8 M, corresponding to the market value reduced by accrued future selling expenses. Short-term receivables amounted to SEK 5.2 M (7.1) and cash and cash equivalents and financial investments to SEK 25.2 M (77.7).

The Active Biotech share

Share capital and ownership structure

At year-end 2017, Active Biotech AB's share capital amounted to SEK 0.5 M distributed among 96,824,320 shares. The company has one class of share. All shares carry equal rights to participation in the company's assets and dividends. For information concerning the company's major shareholders, see page 49 of this Annual Report.

Corporate governance

Active Biotech AB's Articles of Association stipulate that the election of the Board shall always take place at the Annual General Meeting. Apart from this, the Articles of Association do not contain any stipulations governing how Board members are to be appointed or dismissed, or regarding changes to the Articles of Association. Shareholders can vote for the full number of shares held or represented at General Meetings of Active Biotech. Shares that have been issued are freely transferable without restrictions pursuant to legislation or Active Biotech's Articles of Association. The company is not aware of any agreements among shareholders that can entail restrictions on the entitlement to transfer shares in the company. For a more detailed description of how Active Biotech manages corporate governance issues and information on mandates granted by the General Meeting, refer to the Corporate Governance Report on pages 52–55.

Parent Company

The operations of the Parent Company Active Biotech AB comprise the Group's research operations, Group coordinative administrative functions and asset management.

The Parent Company's net sales for the year amounted to SEK 23.4 M (25.1). Operating expenses for the year amounted to SEK 150.0 M (94.1), of which SEK 48.4 M was related to the impairment of goodwill that occurred in a merger 2010. Investments in tangible fixed assets amounted to SEK 0.0 million (0.0) for the period. At year-end, the Parent Company's cash and cash equivalents, including short-term investments, amounted to SEK 21.2 M, compared with SEK 73.2 M at the beginning of the year.

The loss after tax was SEK 126.8 M (loss: 68.6).

Risk factors

A research company such as Active Biotech is characterized by a high operational and financial risk, since the majority of the projects in which the company is involved are at the clinical phase, and there are a number of factors that have an impact on the likelihood of commercial success. The earlier in the development chain the project is, the higher the risk, while the risk decreases and the likelihood of reaching the market increases as each project completes the various specified development phases. The risk level of projects must be weighed against the potential that the projects will result in the development of a drug in the major indication areas that they aim to address. Active Biotech specializes in the development of pharmaceuticals. However, none of the company's products have yet been approved for sale, and operations to date have therefore been loss-making. At the earliest there is a possibility of these products being registered and approved for sale 2023/2024. As a result, Active Biotech might continue to recognize operating losses for several years to come, and there is a risk that the company may never report a profit.

Risks in operations

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

Official requirements

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

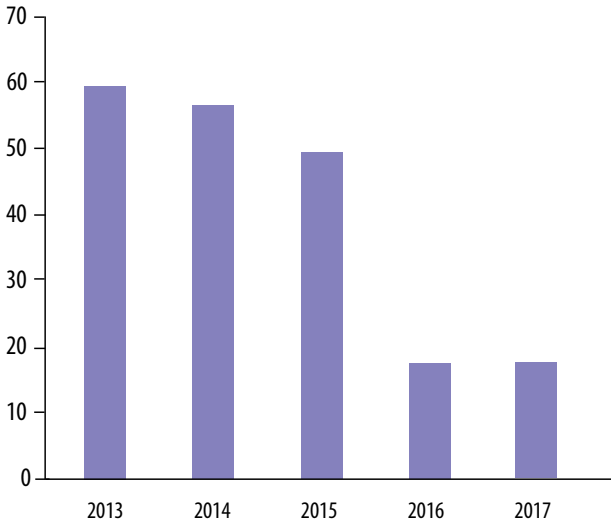
Financial risks

The Group has a currency exposure since operations are conducted in Sweden and research services are purchased internationally. Earnings are exposed to exchange-rate changes with regard to the procurement of clinical trial services, research services and production of clinical materials. Operating expenses amounted to SEK 69.5 M during the fiscal year, of which about 2 percent corresponded to costs in foreign currencies. The proportion of costs in foreign currencies, principally in USD and EUR, may fluctuate as projects enter later phases of clinical development with more clinical studies potentially being conducted abroad. Since the Group does not make use of forward contracts or options to hedge foreign-exchange risk, exchange-rate effects may impact the income statement. The company's credit risks are marginal, since its operations are only subject to low invoicing levels by virtue of the fact that it currently engages primarily in research and development. For further information on financial risks, see Note 20 on page 38.

Organization

The average number of employees in the Group amounted to 17 (28), of whom 8 (14) were women. The average age of the employees was 56 (55) with an average employment period of 22.4 years (21.4). The education level of the personnel is high; five hold a PhD and five have university/college education. During the year, the Group incurred average education costs of SEK 6,500 per employee. At year-end 2017, the number of employees was 17 (17), of whom 9 (9) were active in research and development operations.

Number of employees at year-end 2013-2017



Incentive program

There are no outstanding incentive programs.

Environmental information

Active Biotech conducts its operations in accordance with the permits issued for the company by the authorities. The company has, for example, a permit from the Swedish Radiation Safety Authority for the handling of radioactive materials, and from the Swedish Board of Agriculture and the Swedish Work Environment Authority regarding genetically modified organisms. In accordance with the Swedish Environmental Code, the company has registered its operations with the County Administrative Board. Inspections by the Swedish Work Environment Authority, the Lund Municipal Environmental Administration and the Swedish Radiation Safety Authority all achieved satisfactory results. Active Biotech

has a well-developed program for the sorting of waste at source and for the destruction of environmentally hazardous waste, and works actively to minimize energy consumption and the use of environmentally hazardous substances. Active Biotech is not involved in any environmental disputes.

Report on the work of the Board

The Board decides on the Group's overall strategy, the Group's organization and management in accordance with the Swedish Companies Act. At year-end, the Board comprised four members elected by the Annual General Meeting. Other white-collar employees in the company participate in Board meetings in a reporting capacity or in administrative functions. During the year, 11 meetings were held at which minutes were taken. The President & CEO continuously informed the Chairman of the Board and the other Board members of developments in the company. Important issues addressed by the Board included:

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

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

The Board's proposed guidelines for remuneration of senior executives

The Board proposes that the Annual General Meeting to be held on May 17, 2018 decides on the following guidelines for remuneration of senior executives. These guidelines essentially conform to those applied to date within the company. Senior executives are defined as the President & CEO and other members of Group management. The guidelines are to apply to employment contracts entered into subsequent to the Board's decision on guidelines and in those instances amendments are made in existing terms and conditions following the Board's decision.

Active Biotech is to offer total remuneration on market terms, facilitating the recruitment and retention of competent senior executives. Remuneration of senior executives is to comprise fixed salary, any variable salary, pensions and other benefits. If the Board also determines that new share-based incentives should be introduced (e.g. employee stock options), a proposal concerning this is to be submitted to the General Meeting for resolution. The guidelines applied in 2017 and the remuneration paid are described in Note 6 on page 29.

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

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

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

Severance pay, etc.
The period of termination notice for senior executives is to not exceed 12 months. No severance amounts will be payable.

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

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

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

Previously approved remuneration
There are no earlier adopted remuneration packages that have not fallen due for payment.

Events after the end of the fiscal year

New share issue

It was announced on February 15, 2018 that the Board of Active Biotech proposed that the company's share capital be increased by a maximum of SEK 250,000 by issuing a maximum of 48,412,160 new shares.

The shareholders of the company are entitled to subscribe for the new shares with pre-emptive rights, whereby two existing shares entitle to subscription for one new share. It is also possible to subscribe for shares without pre-emptive rights as specified in the complete issue decision.

The subscription price in the rights issue is SEK 1 per share. The record date for the right to participate in the rights issue is March 26, 2018. Subscription is to take place during the period March 28 – April 11, 2018. The final date for trading in Active Biotech including the right to participate in the rights issue is March 22, 2018.

MGA Holding AB, Nordstjernan AB, Peter Sjöstrand and Peter Thelin (with companies) have undertaken to subscribe for their pre-emptive portions of the share issue, corresponding to 41 percent of the rights issue. In addition, Peter Thelin has provided an issue guarantee comprising SEK 10 M, corresponding to about 21 percent of the rights issue. The rights issue is thereby covered by subscription undertakings and issue guarantees totaling approximately SEK 30 M, corresponding to about 61 percent of the rights offer.

The AGM, in accordance with the Board's proposal, resolved on a new share issue with preferential rights for the shareholders of 48,412,160 shares corresponding to approximately SEK 48 million, before issue costs. After the end of the subscription period, the summary of the issue of 46,661,187 shares, corresponding to approximately 96 percent of the shares offered, was subscribed for by subscription rights. In addition, subscriptions for subscription without preferential rights were received of 14,649,060 shares corresponding to approximately 30 percent of the rights issue. The agreed emission guarantee was therefore not utilized.

Outlook for 2018

Active Biotech's ability to develop pharmaceutical projects to the point at which partnership agreements can be concluded and the partner assumes responsibility for the future development and commercialization of the project is decisive for the company's long-term financial strength and stability.

The partnership agreements with Teva and NeoTX continue to have a decisive impact on the company's future revenues and financial position. Teva is financing a Phase II study of laquinimod in Huntington's disease with the results of this expected in the second half of 2018. Furthermore, NeoTX is expected to initiate the clinical development of ANYARA in combination with an immunostimulating PD-1 inhibitor in the second half of 2018.

In addition, the company is focusing its activities on pursuing commercial activities aimed at identifying partners for other projects: tasquinimod in multiple myeloma, paquinimod for SSc and SILC in immuno-oncology.

The Board of Directors has also resolved to divest the company's premises in Lund and the sales process has been initiated but has not yet been finalized.

Current liquidity, the proceeds from the rights issue resolved in March 2018 and the capital infusion from the planned divestment of the company's property, combined with revenues from existing and anticipated partner agreements are however, according to current plans, assumed to be sufficient to finance operations.

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

Profit brought forward	179,098,318
Loss for the year	-126,792,059
Total	52,306,258

The Board of Directors proposes that the above profit of SEK 52,306,258 be carried forward.

Consolidated income statement

JANUARY 1 – DECEMBER 31

SEK thousands	Note	2017	2016
Net sales	2	20,246	19,042
Administrative expenses	3, 5	-20,173	-15,918
Research and development costs	3	-49,351	-58,248
Other operating expenses	4	-53,250	–
Operating loss	**6**	**-102,528**	**-55,124**
Financial income		14	458
Financial expenses		-7,383	-7,126
Net financial expense	**7**	**-7,369**	**-6,668**
Loss before tax		**-109,897**	**-61,792**
Tax	8	1,104	2,208
Loss for the year		**-108,793**	**-59,584**
Loss for the year attributable to:			
Parent Company's shareholders		-108,793	-59,584
Non-controlling interests		–	–
Earnings per share	**15**		
before dilution (SEK)		-1.12	-0.65
after dilution (SEK)		-1.12	-0.65

Statement of consolidated comprehensive income

JANUARY 1 – DECEMBER 31

SEK thousands	Note	2017	2016
Loss for the year		**-108,793**	**-59,584**
Other comprehensive income			
Items that cannot be reclassified into profit or loss for the year			
Change in the revaluation reserve	10	3,590	7,179
Tax attributable to other comprehensive income	8	-790	-1,579
Other comprehensive income for the year		**2,800**	**5,600**
Comprehensive income for the year		**-105,993**	**-53,984**
Comprehensive income for the year attributable to:			
Parent Company's shareholders		-105,993	-53,984
Non-controlling interests		–	–

Consolidated statement of financial position

AT DECEMBER 31

SEK thousands	Note	2017	2016
ASSETS			
Land and buildings	10	–	325,000
Equipment, tools, fixtures and fittings	10	1,713	3,071
Long-term receivables		1	1
Total fixed assets		**1,714**	**328,072**
Accounts receivable		5	660
Tax assets		1,262	2,457
Assets held for sale	11	271,750	–
Other receivables	12	1,221	1,350
Prepaid expenses and accrued income	13	2,709	2,659
Cash and cash equivalents	23	25,152	77,677
Total current assets		**302,099**	**84,803**
TOTAL ASSETS		303,813	412,875
SHAREHOLDERS' EQUITY			
Share capital		500	364,964
Other capital contributed		3,265,002	3,265,002
Reserves		88,889	86,089
Profit/loss brought forward incl. loss for the year		-3,276,714	-3,533,500
Total shareholders' equity	**14**	**77,677**	**182,555**
LIABILITIES			
Liabilities to credit institutions	16	–	206,183
Other long-term interest-bearing liabilities	16	297	775
Total long-term liabilities		**297**	**206,958**
Short-term interest-bearing liabilities	16	210,115	9,320
Accounts payable		3,629	3,898
Tax liabilities		34	34
Other liabilities	17	1,319	1,235
Accrued expenses and deferred income	18	10,742	8,875
Total short-term liabilities		**225,839**	**23,362**
TOTAL LIABILITIES		226,136	230,320
TOTAL SHAREHOLDERS' EQUITY OCH LIABILITIES		303,813	412,875

For information pertaining to the Group's pledged assets and contingent liabilities, see Note 21.

Consolidated statement of cash flows

JANUARY 1 – DECEMBER 31

SEK thousands	Note 23	2017	2016
Operating activities			
Loss before tax		-109,897	-61,792
Adjustments for non-cash items		56,589	11,768
Cash flow from operating activities before changes in working capital		**-53,308**	**-50,024**
Cash flow from changes in working capital			
Increase(-)/Reduction(+) in operating receivables		5,179	8,894
Increase(+)/Reduction(-) in operating liabilities		1,682	-32,033
Cash flow from operating activities		**-46,447**	**-73,163**
Financing activities			
New share issue		–	55,328
Issue expenses		–	-1,621
Amortization of loans		-5,255	-5,380
Amortization of leasing liabilities		-823	-1,104
Cash flow from financing activities		**-6,078**	**47,223**
Cash flow for the year		**-52,525**	**-25,940**
Cash and cash equivalents, January 1		**77,677**	**103,617**
Exchange-rate differences in cash and cash equivalents		–	–
CASH AND CASH EQUIVALENTS AT YEAR-END		25,152	77,677

Statement of changes in consolidated equity

SEK thousands	Note 14	Share capital	Other capital contributed	Revaluation reserve	Profit/loss brought forward incl. loss for the year	Total shareholders' equity
Opening shareholders' equity, January 1, 2016		338,895	3,237,363	80,489	-3,476,144	180,603
Loss for the year		–	–	–	-59,584	-59,584
Comprehensive income for the year		–	–	5,600	–	5,600
Transfer from revaluation reserve		–	–	–	2,228	2,228
New share issue[1)]		26,069	27,639	–	–	53,708
Closing shareholders' equity, December 31, 2016		364,964	3,265,002	86,089	-3,533,500	182,555
Opening shareholders' equity, January 1, 2017		364,964	3,265,002	86,089	-3,533,500	182,555
Loss for the year		–	–	–	-108,792	-108,792
Comprehensive income for the year		–	–	2,800	–	2,800
Transfer from revaluation reserve		–	–	–	1,114	1,114
Reduction of share capital		-364,464	–	–	364,464	–
Closing shareholders' equity, December 31, 2017		500	3,265,002	88,889	-3,276,714	77,677

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

Parent Company income statement

JANUARY 1 – DECEMBER 31

SEK thousands	Note	2017	2016
Net sales	2	23,433	25,147
Administrative expenses	3, 5	-36,616	-32,418
Research and development costs	3	-57,063	-61,739
Other operating expenses	4	-56,312	–
Operating loss	**6**	**-126,558**	**-69,010**
Profit/loss from financial items			
Interest income and similar items	7	14	457
Interest expense and similar items	7	-248	-5
Loss after financial items		**-126,792**	**-68,558**
Loss before tax		**-126,792**	**-68,558**
Tax	8	–	–
Loss for the year		**-126,792**	**-68,558**

Statement of comprehensive income, Parent Company

JANUARY 1 – DECEMBER 31

SEK thousands	2017	2016
Loss for the year	**-126,792**	**-68,558**
Other comprehensive income	–	–
Comprehensive income for the year	**-126,792**	**-68,558**

Cash-flow statement for the Parent Company

JANUARY 1 – DECEMBER 31

SEK thousands	Note 23	2017	2016
Operating activities			
Loss after financial items		-126,792	-68,558
Adjustments for non-cash items		72,916	16,189
Cash flow from operating activities before changes in working capital		**-53,876**	**-52,369**
Cash flow from changes in working capital			
Increase(-)/Reduction(+) in operating receivables		1,738	13,487
Increase(+)/Reduction(-) in operating liabilities		126	-30,248
Cash flow from operating activities		**-52,012**	**-69,130**
Financing activities			
New share issue		–	55,328
Issue expenses		–	-1,621
Cash flow from financing activities		**–**	**53,707**
Cash flow for the year		**-52,012**	**-15,423**
Cash and cash equivalents, January 1		**73,197**	**88,620**
CASH AND CASH EQUIVALENTS AT YEAR-END		21,185	73,197

Parent Company balance sheet

AT DECEMBER 31 SEK thousands	Note	2017	2016
ASSETS			
Fixed assets			
Intangible fixed assets			
Goodwill	9	–	64,599
Total intangible fixed assets		**–**	**64,599**
Tangible fixed assets			
Equipment, tools, fixtures and fittings	10	–	453
Total tangible fixed assets		**–**	**453**
Financial fixed assets			
Participations in Group companies	21	40,500	40,550
Other long-term receivables		1	1
Total financial fixed assets		**40,501**	**40,551**
Total fixed assets		**40,501**	**105,603**
Current assets			
Short-term receivables			
Accounts receivable		0	625
Receivables from Group companies		159	7,813
Tax assets		1,262	2,457
Other receivables	12	1,221	1,350
Prepaid expenses and accrued income	13	2,710	2,659
Total short-term receivables		**5,352**	**14,904**
Short-term investments	23	19,728	68,714
Cash and bank balances	23	1,457	4,483
Total current assets		**26,537**	**88,101**
TOTAL ASSETS		67,038	193,704

AT DECEMBER 31 SEK thousands	Note	2017	2016
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Restricted equity			
Share capital		500	364,964
Revaluation reserve		–	64,599
Statutory reserve		–	118,871
Unrestricted equity			
Share premium reserve		–	27,639
Profit/loss brought forward		179,100	-327,915
Loss for the year		-126,792	-68,558
Total shareholders' equity	**14**	52,808	179,600
Short-term liabilities			
Accounts payable		3,629	3,898
Liabilities to Group companies		–	1,506
Other liabilities	17	492	473
Accrued expenses and deferred income	18	10,109	8,227
Total short-term liabilities		**14,230**	**14,104**
TOTAL SHAREHOLDERS' EQUITY OCH LIABILITIES		67,038	193,704

For information pertaining to Parent Company's pledged assets and contingent liabilities, see Note 21.

Statement of changes in Parent Company's equity

		Restricted equity			Unrestricted equity			
SEK thousands	Note 14	Share capital	Revaluation reserve	Statutory reserve	Share premium reserve	Profit/loss brought forward	Loss for the year	Total shareholders' equity
Opening shareholders' equity, January 1, 2016		338,895	80,748	118,871	167,097	-310,449	-200,712	194,450
New share issue[1)]		26,069	–	–	27,639	–	–	53,708
Transfer between restricted and unrestricted equity		–	-16,149	–	–	16,149	–	–
Loss for the year		–	–	–	–	–	-68,558	-68,558
Comprehensive income for the year		–	–	–	–	–	–	–
Treatment of profit/loss in preceding year		–	–	–	-167,097	-33,615	200,712	–
Closing shareholders' equity, December 31, 2016		364,964	64,599	118,871	27,639	-327,915	-68,558	179,600
Opening shareholders' equity, January 1, 2017		364,964	64,599	118,871	27,639	-327,915	-68,558	179,600
Reduction of share capital		-364,464	–	-118,871	–	483,335	–	–
Transfer between restricted and unrestricted equity		–	-64,599	–	–	64,599	–	–
Loss for the year		–	–	–	–	–	-126,792	-126,792
Comprehensive income for the year		–	–	–	–	–	–	–
Treatment of profit/loss in preceding year		–	–	–	-27,639	-40,919	68,558	–
Closing shareholders' equity, December 31, 2017		500	–	–	–	179,100	-126,792	52,808

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

Notes to the financial statements

Note 1 • Accounting policies

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

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

The Annual Report and the consolidated financial statements were approved for issue by the Board and the President on April 20, 2018.

The consolidated income statement and statement of financial position and the Parent Company's income statement and balance sheet will be subject for adoption by the Annual General Meeting on May 17, 2018.

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

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

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

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

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

Changed accounting policies
Change accounting policies caused by new or amended IFRS
The changed accounting policies that the Group applies from January 1, 2017 are described below. Other amendments to IFRS applicable from January 1, 2017 did not have any material impact on the consolidated financial statements.

Amended IAS 7 Statement of Cash Flows is applied from 2017. Disclosures have been added to Note 23 where the changes in liabilities for the year attributable to financing activities are reconciled with specification of items including amortization. Disclosures are provided for both changes that impact cash flow and changes that do not impact cash flow. The amendment is applied prospectively, which is why no disclosures are presented for the comparative year.

New IFRS that have not yet been applied
A number of new or revised IFRS will come into effect in forthcoming fiscal years but were not applied prospectively when preparing these financial statements.

IFRS 16 Leases replaces IAS 17 Leases as of January 1, 2019. Active Biotech does not plan to apply IFRS 16 prospectively. IFRS 16 requires Active Biotech as a lessee to recognize all leasing agreements as assets and liabilities on the balance sheet, representing the right to utilize the leased asset and the obligation to pay leasing fees, respectively. Regarding leases, depreciation of the leasing asset and interest expenses on the leasing liability are recognized in profit or loss. There are voluntary exceptions from the application of IFRS 16 for leases for low-value assets as well as agreements with a leasing period of 12 months or less. For lessors, there are no substantial changes except for additional disclosure requirements. For Active Biotech as a lessee, the expectation is that the company's total assets will increase through capitalizing agreements currently classified as operational, that operating profit will improve and that financial expenses will rise. The effects are not deemed material given the limited extent of operating leases. Furthermore, the effects will be determined by which of the available transitional rules that Active Biotech chooses to apply in connection with the transition to IFRS 16.

The Group will start to apply IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from January 1, 2018. The Group has calculated the estimated effect of the transition to IFRS 9 and IFRS 15 on the consolidated financial statements. IFRS 9 will not have a material impact on the financial statements since the company's short-term investments have a term of less than three months from the date of acquisition and are exposed to only an insignificant risk of fluctuation in value, since the amount of accounts receivable is insignificant and other receivables essentially comprise VAT receivables from the Swedish government, and since the Group does not apply hedge accounting or have any outstanding derivative instruments. IFRS 15 will not have any material impact on the financial statements since revenues essentially comprise research services and other services that are recognized as revenue as they are performed and for which IFRS 15 is not deemed to have an impact, and rental revenues from the property, which is encompassed by IAS 17/IFRS 16 and for which no material services are deemed to be needed to be allocated from rental revenue and recognized in accordance with IFRS 15.

Other new or amended IFRS, including statements, are not expected to have any material impact on the consolidated financial statements.

Segment reporting
An operating segment is a part of the Group that conducts operations from which it can generate revenues and incur costs and from which independent financial information is available. In addition, an operating segment's results are followed up by the company's chief operating decision-maker to assess earnings and to be able to allocate resources to the operating segment. Since operations within the Active Biotech Group are organized as a cohesive unit, with similar risks and opportunities for the products and services produced, the Group's entire operation comprises a single operating segment.

All operations are conducted in Sweden.

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

Consolidation principles
Subsidiaries
A subsidiary is a company in which Active Biotech AB has a controlling influence. Controlling influence entails a direct or indirect right to formulate a company's financial and operative strategies with the aim of obtaining financial benefits. When determining if a controlling influence exists, consideration is given to potential shares that carry voting rights, which can be utilized or converted without delay.

Transactions to be eliminated at consolidation
Intra-Group receivables and liabilities, revenues and expenses and unrealized gains or losses that arise from transactions between Group companies are eliminated in their entirety when preparing the consolidated financial statements.

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

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

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

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

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

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

Operating expenses and financial income and expenses

Operating leases

Costs pertaining to operating leases are recognized straight-line in profit or loss over the leasing period.

Financial leases

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

Financial income and expenses

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

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

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

Exchange-rate gains and losses are netted.

Financial instruments

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

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

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

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

Classification and measurement

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

Loan and accounts receivables

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

Investments held to maturity

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

Financial assets and liabilities at fair value in profit or loss

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

Other financial liabilities

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

Tangible fixed assets

Owned assets

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

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

In the second quarter of 2017, the Group's property was reclassified as "Assets held for sale." Until that time, the property had been measured at fair value less deductions for accumulated depreciation and adjustments due to revaluation. Revaluation was conducted with the regularity that was required to ensure that the carrying amount would not significantly deviate from what was established as the fair value on the balance-sheet date. The fair value of the property was based on the valuation conducted by independent external appraisers. When the asset's carrying amount increased, the appreciation was recognized directly in other comprehensive income and accumulated in a separate component in shareholders' equity termed "Revaluation reserve." If the increase entailed a reversal of the previously recognized value impairment with regard to the same asset, the reduction was recognized as a reduced expense in profit or loss.

When the carrying amount of an asset is reduced as a result of a revaluation, the reduction was recognized as an expense in profit or loss. If there was a balance in the revaluation reserve attributable to the asset, the value decline was recognized in other comprehensive income as a reduction in the revaluation reserve. The difference between depreciation based on the revaluation value and depreciation using the original cost was transferred from the revaluation reserve to profit/loss brought forward. Accumulated depreciation at the time of revaluation was eliminated against the asset's cost (or, where appropriate, in the revalued cost) after which the remaining net amount was adjusted to achieve conformity with the amount to which the asset was revalued (the asset's fair value). The revaluation reserve remains after the reclassification as "Assets held for sale." It will be transferred to profit/loss brought forward when the asset is divested, with no impact on profit or loss or other comprehensive income.

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

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

Leased assets

Leases are classified in the consolidated financial statements as either financial leases or operating leases. Financial leases exist when the financial risks and benefits associated with ownership are essentially transferred to the lessee. If this is not the case, the lease is considered to be an operating lease. Assets leased through financial leases are recognized as assets in the consolidated statement of financial position.

The commitment to pay future leasing fees is recognized as long-term and short-term liabilities. These assets are depreciated over the contractual leasing period while leasing fees are recognized as interest and amortization of liabilities.

Leasing fees for operating leases are expensed straight-line over the term of the lease based on the value in use, which may differ from that which has actually been paid as a leasing fee during the year.

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

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

Repairs are expensed on an ongoing basis.

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

Estimated useful life of:	
– Buildings, owner-occupied properties	35–100 years
– Equipment, tools, fixtures and fittings	3–10 years

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

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

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

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

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

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

Since the period in which the company's research and development projects are expected to be registered is some way off in the future, there is considerable uncertainty as to when any financial benefits will accrue to the company.

Development costs are capitalized only on the condition that it is technically and financially possible to complete the asset, that the intention is, and the conditions exist, for the asset to be used in operations or sold and that it can be calculated in a reliable manner. Expenses pertaining to patents, technology and trademark rights and other similar assets that are part of the research and development operations are not capitalized, but are offset against earnings on an ongoing basis.

No assets of this character were acquired.

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

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

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

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

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

The recoverable amount for assets included in the loan receivables and accounts receivable category, which are recognized at amortized cost, is calculated as the present value of future cash flows discounted by the effective interest rate that applied when the asset was initially recognized. Assets with a short duration are not discounted. An impairment loss is charged to profit or loss.

Reversal of impairment
An impairment loss is reversed if there is both an indication that the impairment requirement no longer exists and if there has been a change in the assumptions that formed the basis for the calculation of the recoverable amount. However, impairment of goodwill is never reversed. Reversal of impairment is only conducted to the extent that the asset's carrying amount after the reversal does not exceed the carrying amount that would have been recognized, less depreciation, where applicable, had no impairment taken place.

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

Non-current assets held for sale
The Group's property was classified as per December 31, 2017 as a non-current asset held for sale in accordance with IFRS 5. The implication of a non-current asset classified as held for sale is that its carrying amount will be recovered primarily through its sale and not through its use.

An assets is classified as held for sale if it is available for immediate sale in its current condition and based on customary conditions, and it is highly likely that a sale will be completed. After the property was reclassified as a non-current asset held for sale, it is continuously measured at fair value with deductions for selling expenses. Gains or losses arising on changes in fair value after selling expenses are recognized in profit or loss.

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

All defined-benefit pension plans are secured through insurance with Alecta, which is a multi-employer defined-benefit plan. For the 2017 and 2016 fiscal years, the company did not have access to information that would make it possible to recognize this plan as a defined-benefit plan. Accordingly, pension plans conforming to ITP and secured through an Alecta insurance policy are recognized as a defined-contribution plan.

Severance pay
An expense for remuneration in connection with termination of employment of personnel is recognized only if the company is unquestionably obligated, without any realistic possibility of withdrawal, by a formal detailed plan to eliminate a position in advance of when that position would normally expire. When remuneration is paid as an offer to encourage voluntary termination of employment, a cost for this is recognized if it is probable that the offer will be accepted and the number of employees that will accept the offer can be reliably estimated.

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

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

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

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

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

Deferred tax is calculated using the balance-sheet method based on the temporary differences between the carrying amount and the value for tax purposes of assets and liabilities. The following temporary differences are not recognized: temporary differences are not recognized in consolidated goodwill or for the difference that arises during initial recognition of assets and liabilities that do not constitute a business combination which, at the time of the transaction, do not have an impact on recognized or taxable earnings. Furthermore, temporary differences are not recognized that are attributable to shares in subsidiaries and participations in associated companies that are not expected to be reversed in the foreseeable future. Estimates of deferred tax are based on how carrying amounts of assets and liabilities are expected to be realized or settled. Deferred tax is calculated applying tax rates and legislation determined or announced at the balance-sheet date. Deferred tax assets pertaining to deductible temporary differences and loss carryforwards are recognized to the extent that it is probable that they will be utilized. The carrying amount of deferred tax assets is reduced when it is no longer judged probable that they will be utilized.

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

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

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

Changed accounting policies
The Parent Company's accounting policies for 2017 were unchanged compared with the preceding year.

New IFRS that have not yet been applied
IFRS 9, 15 and 16 are not expected to have any significant effect on the parent company's financial statements.

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

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

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

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

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

Leased assets
In the Parent Company, all leases are recognized in accordance with the regulations for operating leases.

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

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

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

Note 2 • Distribution of sales

	Group		Parent Company	
SEK thousands	**2017**	2016	**2017**	2016
License fees	–	2,250	–	2,250
Research services	2,742	1,813	2,742	1,813
Rental revenues	15,015	12,841	–	–
Service revenues	2,464	1,885	2,464	1,885
Property services	–	–	18,202	18,946
Other	25	253	25	253
Total	20,246	19,042	23,433	25,147

Note 3 • Operating expenses distributed by type of cost

	Group		Parent Company	
SEK thousands	**2017**	2016	**2017**	2016
Personnel costs	30,313	29,179	30,313	29,179
Depreciation/amortization	6,134	11,767	16,150	16,189
Impairment	50,454	0	56,766	0
Operating expenses	8,926	8,233	5,671	8,229
Property expenses	15,188	16,194	29,332	31,768
Administrative expenses	1,348	935	1,348	935
External R&D expenses	7,940	6,613	7,940	6,613
Other external services	2,471	1,244	2,471	1,244
Total	122,774	74,165	149,991	94,157

Note 4 • Other operating expenses

	Group		Parent Company	
SEK thousands	**2017**	2016	**2017**	2016
Impairment of assets held for sale	50,000	–	–	–
Estimated selling expense of the company's property	3,250	–	–	–
Impairment of goodwill	–	–	48,449	–
Impairment of receivables from Group companies	–	–	7,863	–
Total	53,250	–	56,312	–

Note 5 • Auditors' fees

	Group and Parent Company	
SEK thousands	**2017**	2016
KPMG AB		
Auditing assignment	450	450
Tax consultancy services	126	45

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

Note 6 • Employee and personnel costs, and remuneration of senior executives

Costs for remuneration of employees	Group		Parent Company	
SEK thousands	**2017**	2016	**2017**	2016
Salaries and remuneration, etc.[3]	15,960	15,351	15,960	15,351
Pension costs defined-contribution plans [1] [2] (see below)	6,015	7,375	6,015	7,375
Social-security costs[3]	6,009	3,569	6,009	3,569
Non-monetary remuneration	1,724	2,060		
Total	29,708	28,355	27,984	26,295

[1] Of the Parent Company's pension costs, SEK 1,954 thousand (2,814) pertains to the Board of Directors and President & CEO.

[2] The Group's pension costs include SEK 1.1 M (1.5) pertaining to the ITP plan financed in Alecta. See the section below "Post-retirement benefits" for further information.

[3] Salaries and remuneration, etc. and social-security costs include expenses for redundancies of a total of SEK 2.7 M (0.0).

Average number of employees	2017		2016	
	No. of employees	Of whom, women	No. of employees	Of whom, women
Parent Company				
Sweden	17	8 (47%)	28	14 (50%)
Total Parent Company	17	8 (47%)	28	14 (50%)
Subsidiaries				
Sweden	0	0 (0%)	0	0 (0%)
Group total	**17**	8 (47%)	**28**	14 (50%)

Gender distribution in management	2017	2016
	Of whom, women	
Parent Company		
Board of Directors	25%	25%
Other senior executives	67%	33%
Group total		
Board of Directors	25%	25%
Other senior executives	67%	33%

Salaries and other remuneration subdivided by country and between senior executives and other employees, and social-security costs in the Parent Company	2017			2016		
SEK thousands	Senior executives (7 individuals)	Other employees	Total	Senior executives (7 individuals)	Other employees	Total
Salaries and other remuneration						
Sweden	5,813	10,147	15,960	6,583	8,768	15,351
(of which, bonus and similar)	–	–	–	–	–	–
Total Parent Company	5,813	10,147	15,960	6,583	8,768	15,351
(of which, bonus and similar)	–	–	–	–	–	–
Social-security costs [1]	4,509	7,515	12,024	6,528	4,416	10,944
[1] of which, pension costs	2,890	3,125	6,015	4,203	3,172	7,375

Outgoing CEO Tomas Leanderson was included in the group of senior executives between January 1, 2017 and June 30, 2017.
Monthly wages and pensions to former CEO are settled by agreement until May 2018.

Salaries and other remuneration, pension costs for senior executives in the Group	2017	2016
Group	Senior executives	Senior executives
SEK thousands	(7 individuals)	(7 individuals)
Salaries and other remuneration	5,813	6,583
(of which, bonus and similar)	–	–
Pension costs	2,890	4,203

Severance pay and loans to senior executives
No agreement exists covering severance pay or loans to Board members.

The company and the President & CEO are subject to a mutual period of termination notice of 12 months. No severance pay will be issued and no loans exist. The company and other senior executives are to be subject to a mutual period of termination notice of not more than 12 months. No severance pay will be issued and no loans exist.

Post-retirement benefits
Defined-benefit plans
Retirement pension and family pension obligations for salaried workers in Sweden are secured through insurance with Alecta, which is a multi-employer, defined-benefit plan. For the 2017 and 2016 fiscal years, the company did not have access to information that would make it possible to recognize this plan as a defined-benefit plan. Accordingly, pension plans conforming to ITP and secured through an Alecta insurance policy are recognized as a defined-contribution plan. The year's fees for pension insurance subscribed to in Alecta totaled SEK 1.1 M (1.5) and for 2018 the premiums will amount to SEK 1.0 M. Alecta's surplus can be allocated to the policy-holders and/or the insured. At year-end 2017, Alecta's surplus at the collective funding ratio amounted to 154 percent (149). The collective funding ratio comprises the market value of Alecta's assets as a percentage of insurance obligations based on Alecta's actuarial calculations, which do not conform to IAS 19. Active Biotech's share of total savings premiums for ITP2 with Alecta amounted to 0.00539 percent for 2017 and the share of the total actively insured in ITP2 amounted to 0.00301 percent in December 2017.

Remuneration of senior executives

Guidelines adopted at the Annual General Meeting on June 15, 2017

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

Fixed salary

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

Variable salary

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

Pension

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

Severance pay

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

Other benefits

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

Preparation and approval

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

Previously approved remuneration

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

Remuneration and other benefits during 2017

SEK thousands	Basic salary /Board fee	Variable remuneration	Salary exchange	Pension costs	Share-based remuneration	Other remuneration	Total
Chairman of the Board; Mats Arnhög [1]	250	–	–	–	–	–	250
Board member; Magnhild Sandberg-Wollheim [1]	125	–	–	–	–	–	125
Board member; Peter Sjöstrand [1]	125	–	–	–	–	–	125
Board member; Peter Thelin [1]	125	–	–	–	–	–	125
President, Tomas Leanderson (Jan-Jun)	1,648	–	765	642	–	–	3,055
President, Helen Tuvesson (Jul-Dec) [2]	1,354	–	195	637	–	–	2,186
Other senior executives (2 individuals)	2,186	–	457	194	–	–	2,837
Total	**5,813**	**–**	**1,417**	**1,473**	**–**	**–**	**8,703**

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

[2] The amount pertains to the full-year.

Remuneration and other benefits during 2016

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

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

Note 7 • Net financial items

	Group		Parent Company	
SEK thousands	**2017**	2016	**2017**	2016
Interest income				
- Other interest income	–	8	–	7
Net gain on financial assets and liabilities measured at fair value in profit or loss				
- Held for trading: Short-term investments	14	159	14	159
Net exchange-rate changes	–	291	–	291
Financial income/Interest income and similar items	**14**	**458**	**14**	**457**
Interest expenses				
- Interest expenses relating to bank loans	-7,085	-7,058	–	–
- Interest expenses relating to financial leasing	-50	-63	–	–
- Other interest expenses	-5	-5	-5	-5
Net exchange-rate changes	-243	–	-243	–
Financial expenses/Interest expense and similar items	**-7,383**	**-7,126**	**-248**	**-5**
Net financial expense	**-7,369**	**-6,668**	**-234**	**452**
Of which:				
Interest income from instruments measured at amortized cost	–	–		
Interest expenses from instruments measured at amortized cost	-7,140	-7,126		
Exchange-rate differences that impacted earnings				
Exchange-rate differences that impacted operating loss	-25	17	-25	17
Financial exchange-rate differences	-243	291	-243	291
Total	**-268**	**308**	**-268**	**308**

Note 8 • Taxes

Recognized in profit or loss	Group		Parent Company	
SEK thousands	**2017**	2016	**2017**	2016
Current tax expense (-)/tax income (+)				
Tax expense/tax income for the period	–	–	–	–
Tax adjustments brought forward from earlier years	–	–	–	–
	–	–	–	–
Deferred tax expense (-)/tax income (+)				
Deferred tax expense as a result of the utilization of loss carryforwards previously capitalized	-314	-629	–	–
Deferred tax income in tax loss carryforwards capitalized during the year	1,104	2,208	–	–
Deferred tax expense as a result of the change in the tax rate	–	–	–	–
Deferred tax income attributable to depreciation of revaluation of property	314	629	–	–
Total recognized tax expense/income	**1,104**	**2,208**	**–**	**–**

	Group		Parent Company	
SEK thousands	**2017**	2016	**2017**	2016
Reconciliation of effective tax				
Loss before tax	-108,793	-61,792	-126,792	-68,558
Tax on the Parent Company according to current rates	23,934	13,594	27,894	15,083
Non-deductible expenses	-2,694	-1,350	-2,694	-1,350
Non-taxable revenues	150	148	150	148
Increase in loss carryforwards without equivalent capitalization of deferred taxes	-25,350	-13,881	-25,350	-13,881
Deductible expenses/taxable revenues not recognized in earnings[1]	14,212	3,553	–	–
Increase/decrease in temporary differences for which deferred tax is not recognized	-10,252	-2,064	–	–
Revaluation of deferred tax	1,104	2,208		–
Recognized effective tax	**1,104**	**2,208**	–	–

[1)] In 2010, the subsidiary Active Biotech Research was merged with the Parent Company Active Biotech AB. In connection with this, a goodwill gain of approximately SEK 161.5 M arose that was eliminated in the accounts. This gain was taxable for the Parent Company and was thus added for taxation in the Parent Company's tax return. Every year, the goodwill item was amortized in the amount of SEK 16,150 thousand per year and eliminated in the Group without recognizing the corresponding expense. The tax effect of the amortization of goodwill for 2016 was 22 percent of SEK 16,150 thousand (meaning SEK 3,553 thousand). The remaining goodwill item, SEK 64,599 thousand (amortization for the year of SEK 16,150 thousand plus the remaining goodwill item of SEK 48,449 thousand), was impaired in 2017 and for this reason a tax effect of 22 percent on SEK 64,599 thousand, meaning SEK 14,212 thousand, arose.

Tax items recognized directly in other comprehensive income	Group		Parent Company	
SEK thousands	**2017**	2016	**2017**	2016
Tax attributable to change in revaluation reserve	**-790**	1,579	**–**	–

Tax items recognized directly in equity	Group		Parent Company	
SEK thousands	2017	2016	2017	2016
Tax attributable to change in revaluation reserve	**-314**	-629	–	–

Recognized in statement of financial position Deferred tax assets and liabilities	Deferred tax assets Group		Deferred tax liabilities Group		Net Group	
SEK thousands	**2017**	2016	**2017**	2016	**2017**	2016
Tangible fixed assets	–	–	-25,070	-24,280	-25,070	-24,280
Loss carryforwards	25,070	24,280	–	–	25,070	24,280
Tax assets/liabilities	25,070	24,280	-25,070	-24,280	–	–
Offsetting	-25,070	-24,280	25,070	24,280	–	–
Tax assets/liabilities, net	–	–	–	–	–	–

Change in deferred tax in temporary differences and loss carryforwards

SEK thousands	Balance at Jan. 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	Balance at Dec. 31, 2017
Tangible fixed assets	-24,280	314	-790	-314	-25,070
Loss carryforwards	24,280	790	–	–	25,070
	–	1,104	-790	-314	–

Change in deferred tax in temporary differences and loss carryforwards

SEK thousands	Balance at Jan. 1, 2016	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	Balance at Dec. 31, 2016
Tangible fixed assets	-22,701	629	-1,579	-629	-24,280
Loss carryforwards	22,701	1,579	–	–	24,280
	–	2,208	-1,579	-629	–

Due to the Group's activities with considerable research and development costs, it is not liable for tax. At the end of 2017, the Group's accumulated loss carryforwards amounted to SEK 3,301 M and was attributable to the Group's Swedish companies. The Parent Company's loss carryforwards amounted to SEK 3,300 M. Since the time at which the Parent Company and the Swedish subsidiaries may be expected to generate revenues cannot yet be specified, only the portion of the taxable effects of the loss carryforwards corresponding to the deferred tax liability was recognized. The loss carryforwards for which deferred tax assets are not recognized amounted to SEK 3,187 M (3,075).

Note 9 • Intangible fixed assets

Parent Company

SEK thousands	Goodwill	Total
Cost		
Opening balance, January 1, 2016	161,497	161,497
Other acquisitions	–	–
Closing balance, December 31, 2016	161,497	161,497
Opening balance, January 1, 2017	161,497	161,497
Impairment	-161,497	-161,497
Closing balance, December 31, 2017	–	–

The goodwill record occurred in 2010 when the Parent Company merged with a subsidiary. In the light of the study results and the related staff reductions, an impairment need has arisen.

Parent Company

SEK thousands	Goodwill	Total
Amortization and impairment losses		
Opening balance, January 1, 2016	-80,749	-80,749
Amortization for the year	-16,149	-16,149
Closing balance, December 31, 2016	-96,898	-96,898
Opening balance, January 1, 2017	-96,898	-96,898
Amortization for the year	-16,149	-16,149
Impairment for the year	113,047	113,047
Closing balance, December 31, 2017	–	–
Carrying amounts		
January 1, 2016	80,748	80,748
December 31, 2016	64,599	64,599
January 1, 2017	64,599	64,599
December 31, 2017	–	–

Note 10 • Tangible fixed assets

Group

SEK thousands	Land and buildings Recognition based on revaluation method	Equipment, tools, fixtures and fittings Recognition based on cost method	Total
Cost			
Opening balance, January 1, 2016	419,269	51,796	471,065
Revaluation	10,036	–	10,036
Closing balance, December 31, 2016	429,305	51,796	481,101
Opening balance, January 1, 2017	429,305	51,796	481,101
Revaluation	5,018	–	5,018
Other acquisitions	–	212	212
Disposal	–	-454	-454
Reclassification as assets held for sale	-434,323	–	-434,323
Closing balance December 31, 2017	–	51,554	51,554
Depreciation and impairment losses			
Opening balance, January 1, 2016	-94,269	-46,994	-141,263
Depreciation for the year	-7,179	-1,731	-8,910
Revaluation	-2,857	–	-2,857
Closing balance, December 31, 2016	-104,305	-48,725	-153,030
Opening balance, January 1, 2017	-104,305	-48,725	-153,030
Depreciation for the year	-3,590	-1,116	-4,706
Revaluation	-1,428	–	-1,428
Reclassification as assets held for sale	109,323	–	109,323
Closing balance December 31, 2017	–	-49,841	-49,841
Carrying amounts			
January 1, 2016	325,000	4,802	329,802
December 31, 2016	325,000	3,071	328,071
January 1, 2017	325,000	3,071	328,071
December 31, 2017	–	1,713	1,713

Tax assessment values

Group	Dec. 31, 2017	Dec. 31, 2016
Tax assessment value, buildings (Forskaren 1, Municipality of Lund)	68,400	68,400
Tax assessment value, land (Forskaren 1, Municipality of Lund)	13,652	13,652

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

Financial leasing in the Group

The Group leases machines and other technical facilities under various financial leasing agreements in which the main terms of the agreement are as follows: rental period 36-60 months, final residual value 10 percent of the cost and an interest rate linked to a floating market interest rate. Property leased through the above-mentioned agreements is recognized in the consolidated balance sheet under equipment, tools, fixtures and fittings. At December 31, 2017, the carrying amount of property covered by financial leases was SEK 543 thousand. See also Note 16 Interest-bearing liabilities.

Operating leases in the Group

The Group has operating leases for cars, telephone switchboard and photocopying machines. Payments pertaining to these operating leases are due as follows: within one year SEK 688 thousand, between one and five years SEK 1,350 thousand, and after five years SEK 0.

Parent Company

SEK thousands	Equipment, tools, fixtures and fittings	Total
Cost		
Opening balance, January 1, 2016	21,783	21,783
Closing balance, December 31, 2016	21,783	21,783
Opening balance, January 1, 2017	21,783	21,783
Disposal	-453	-453
Closing balance December 31, 2017	21,330	21,330
Depreciation and impairment losses		
Opening balance, January 1, 2016	-21,290	-21,290
Depreciation for the year	-40	-40
Closing balance, December 31, 2016	-21,330	-21,330
Opening balance, January 1, 2017	-21,330	-21,330
Closing balance December 31, 2017	-21,330	-21,330
Carrying amounts		
January 1, 2016	493	493
December 31, 2016	453	453
January 1, 2017	453	453
December 31, 2017	–	–

Note 11 • Assets held for sale

Active Biotech made the decision in the second quarter of 2017 to divest the company's property. The property was reclassified from fixed assets to assets held for sale. The sale of the property is expected to take place in 2018.

Following reclassification, the Group recognizes its property at fair value with deductions for selling expenses. The value of the laboratory equipment and other special equipment was not considered in the valuation. On the reclassification date, the property was valued at SEK 325.0 M before selling expenses. The company's decision to discontinue and close its animal laboratory operations has resulted in some parts of the property being vacated for a period, which impacted the valuation. At December 31, 2017, the property was valued by Thomas Ahlbeck Fastighetsekonomi AB at SEK 300 M with an uncertainty measure of SEK 50 M. Based on this valuation, the company has assessed the market value to SEK 275 M and has reported a write-down of SEK 50 M in the fourth quarter. The impairment was recognized as "Other operating expenses." Selling expenses are estimated at SEK 3 M.

The fair value (before selling expenses) was calculated based on inputs and valuation techniques according to Level 3 of the fair value hierarchy. The value assessment was conducted using a market simulation via yield-based market value assessment and via the local market price method.

Conditions in the cash-flow computation (15 years) and assumptions for valuation:
- Inflation assumption of 1.1 percent in 2016, 2 percent from 2017 and onwards
- Rental increases for rented premises in accordance with agreed rental terms
- Rental increases for internal premises, 100 percent of CPI
- Annual increase of operation/maintenance, 100 percent of CPI
- Direct yield last year's net operating income, 6.0 percent
- Nominal cost of capital, 8.1 percent

Note 12 • Other receivables

	Group		Parent Company	
SEK thousands	**2017**	2016	**2017**	2016
VAT	1,047	1,316	1,047	1,316
Other receivables	174	34	174	34
Total	1,221	1,350	1,221	1,350

Note 13 • Prepaid expenses and accrued income

	Group		Parent Company	
SEK thousands	**2017**	2016	**2017**	2016
Prepaid rent	27	27	27	27
Prepaid insurance	955	764	955	764
Accrued income	378	435	378	435
Prepaid patenting expenses	742	820	742	820
Prepaid property expenses	359	347	359	347
Other prepaid expenses and accrued income	248	266	249	267
Total	2,709	2,659	2,710	2,660

Note 14 • Shareholders' equity

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

SEK thousands	**2017**	2016
Revaluation reserve, January 1	86,089	80,489
Revaluation of property	5,018	10,036
Tax effect of property revaluation	-1,104	-2,208
Transfer to profit brought forward	-1,428	-2,857
Tax effect of transfer to profit brought forward	314	629
Revaluation reserve, December 31	88,889	86,089

Share capital	Ordinary shares	
Thousands of shares	**2017**	2016
Issued at January 1	96,824	89,908
Cash issue	–	6,916
Issued at December 31 – paid	96,824	96,824

Allocation of accumulated loss and free funds

Profit brought forward	179,098,317
Loss for the year	-126,792,059
Total available standing funds to balance on a new account	52,306,258

At December 31, 2017, the registered share capital comprised 96,824,320 ordinary shares with a quotient value of SEK 0.005164. Holders of ordinary shares are entitled to dividends determined successively and the shareholding entitles the holder to voting rights at the Annual General Meeting of one vote per share.

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

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

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

Dividend
The Board of Directors proposes that no dividend be paid for the 2017 fiscal year.

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

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

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

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

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

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

Note 15 • Earnings per share

	Before dilution		After dilution	
SEK	**2017**	2016	**2017**	2016
Earnings per share	-1.12	-0.65	-1.12	-0.65

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

Earnings per share before dilution
The calculation of earnings per share in 2017 was based on loss for the year attributable to the Parent Company's ordinary shareholders amounting to a loss of SEK 108,793 thousand (loss: 59,584) and on a weighted average number of shares outstanding during 2017 totaling 96,824,320 (91,041,241). The two components were calculated in the following manner:

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

SEK thousands	**2017**	2016
Loss for the year attributable to the Parent Company's shareholders	-108,793	-59,584

Weighted average number of outstanding ordinary shares, before dilution

Thousands of shares	**2017**	2016
Total number of ordinary shares at January 1	96,824	89,908
Effect of new share issues	–	1,133
Weighted average number of ordinary shares during the year, before dilution	96,824	91,041

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

Note 16 • Interest-bearing liabilities

	Group	
SEK thousands	**2017**	2016
Long-term liabilities		
Bank loans	–	206,183
Financial leasing liabilities	297	775
Total	297	206,958
Short-term liabilities		
Short-term portion of bank loan	209,433	8,505
Short-term portion of financial leasing liabilities	682	815
Total	210,115	9,320

The company's real estate loan contains a covenant that the company's liquidity can not at any rate fall below SEK 30 million, a level reached by the end of 2017. Due to the covenant breach, the loan was reclassified to short term as of December 31, 2017. In March 2018, the company agreed with creditor's bank that the commitment that liquidity should never fall below SEK 30 m is waived. As a consequence with this, the parties have agreed on additional terms for the property loan, which includes a commitment by the company to divest the property Lund Forskaren 1 by the end of 2018 and repay the credit no later than 18 months after the agreement was reached.

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

SEK thousands	Amortization	Interest	Total payment
Within one year	682	30	712
Between one and five years	297	15	312
Later than five years	–	–	–
Total	**979**	**45**	**1,024**

Amortization due within one year is recognized as a short-term liability. Interest on financial leases is linked to the floating market interest rates.
For further information concerning interest and maturity structures, see Note 20.

Note 17 • Other short-term liabilities

	Group		Parent Company	
SEK thousands	**2017**	2016	**2017**	2016
Personnel tax at source	492	473	492	473
VAT	827	762	–	–
Total	**1,319**	**1,235**	**492**	**473**

Note 18 • Accrued expenses and deferred income

	Group		Parent Company	
SEK thousands	**2017**	2016	**2017**	2016
Accrued vacation liability, including social-security costs	3,170	3,503	3,170	3,503
Accrued employer's contributions	303	314	303	314
Other accrued personnel costs	1,649	2,049	1,649	2,049
Accrued Board fees, including social-security costs	771	771	771	771
Accrued auditors' fees	300	300	300	300
Accrued interest	632	648	–	–
Accrued property expenses	1,023	975	1,023	975
Accrued costs, redundancies	2,689	–	2,689	–
Other items	205	315	204	315
Total	10,742	8,875	10,109	8,227

Note 19 • Categories of financial assets and liabilities and disclosures regarding fair value

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

Group 2017

SEK thousands	Accounts and loan receivables	Financial assets/ liabilities at fair value in profit or loss	Other financial liabilities	Total carrying amount
Other long-term receivables	1	–	–	1
Accounts receivable	–	–	–	–
Short-term investments	–	19,728	–	19,728
Cash and bank balances	5,424	–	–	5,424
Total	**5,425**	**19,728**	**–**	**25,153**
Long-term interest-bearing liabilities	–	–	297	297
Short-term interest-bearing liabilities	–	–	210,115	210,115
Accounts payable	–	–	3,629	3,629
Accrued expenses	–	–	632	632
Total	**–**	**–**	**214,673**	**214,673**

Group 2016

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

Disclosure regarding the determination of fair value

Group 2017

	Level 1	Level 2	Level 3	Total
Short-term investments – on a par with cash and cash equivalents		19,728		19,728

Group 2016

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

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

Calculation of fair value

Short-term investments

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

Parent Company 2017

SEK thousands	Accounts and loan receivables	Financial assets/ liabilities at fair value in profit or loss	Other financial liabilities	Total carrying amount
Long-term receivables	1	–	–	1
Accounts receivable	–	–	–	–
Short-term investments	–	19,728	–	19,728
Cash and bank balances	1,457	–	–	1,457
Total	**1,458**	**19,728**	**–**	**21,186**
Accounts payable	–	–	3,629	3,629
Total	**–**	**–**	**3,629**	**3,629**

Parent Company 2016

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

Note 20 • Financial risks and financial policies

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

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

Interest-rate risk

Interest-rate risk relating to cash and cash equivalents

The Group's liquidity, which amounted to SEK 25,152 thousand (77,677) at December 31, was invested at a floating interest rate, which fluctuated between -0.1 and 0.2 percent (-0.4 and 0.7) during the year. Liquidity risk is defined as the risk that the Group could experience problems in fulfilling its obligations associated with financial liabilities. For its short-term planning, the Group has a rolling 12-month liquidity plan that is regularly updated. For its medium-term planning, future revenue and expense flows are regularly forecast based on the anticipated development phase of the projects. In addition, a long-term liquidity forecast is presented to the Board on a regular basis.

Interest-rate risk relating to borrowings

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

The Group's financing sources mainly comprise shareholders' equity, bank loans for financing of property holdings and liabilities for financial leasing commitments. Outstanding interest-bearing liabilities are recognized in Note 16 and a term analysis for financial liabilities is presented below.

Sensitivity analysis: A change in the interest rate of plus/minus 1 percentage point would impact net interest income in the amount of plus/minus SEK 2.1 M (1.5).

Financing risk

Financing risk refers to the risk that the financing of Active Biotech's capital needs and the refinancing of outstanding loans will be complicated or increased.

The liabilities consist of a property loan, a small bank loan and financial leasing liabilities. The company has no short-term loan financing in the form of check credits. Active Biotech ensures short-term payment preparedness by having good liquidity preparedness in the form of cash.

In the company's real estate loan, Active Biotech has a covenant that the company's liquidity can not at any time be less than SEK 30 million, a level reached by the end of 2017. Against the background of the covenant breach, the loan was reclassified short term as of 31 December 2017. In February 2018, the Board decided to propose a new rights issue of no more than SEK 48 million, which together with the liquidity contribution from the planned divestment of the company's property and income from already signed agreements will be able to finance the operations according to current plans. In March 2018, the company also agreed with the lending bank that the commitment that liquidity should never fall below SEK 30 m is waived. In connection with this, the parties have agreed on additional terms for the property loan, which includes a commitment by the company to divest the property Lund Forskaren 1 by the end of 2018 and repay the credit no later than 18 months after the agreement was reached.

Group 2017 SEK thousands	Nominal amount Total	Within 1 month	1–3 months	3 months – 1 year	1 – 5 years	5 years and longer
Bank loans, SEK	209,433	–	209,433	–	–	–
Financial leasing liabilities, SEK	979	54	152	476	297	–
Accounts payable, SEK	3,629	3,608	21	–	–	–
Total	**214,041**	**3,662**	**209,606**	**476**	**297**	**–**

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

Currency risks

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

The Group has a currency exposure, since operations are primarily conducted in Sweden. Earnings are exposed to fluctuations in exchange rates since both revenues and costs partly comprise foreign currencies, primarily EUR and USD. In 2017, foreign currencies accounted for 4 percent of revenues while the equivalent figure for operating expenses was 2 percent.

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

Credit risks

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

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

Maturity analysis, due but unimpaired accounts receivable

	2017		2016	
SEK thousands	Carrying amount unimpaired receivable	Collateral	Carrying amount unimpaired receivable	Collateral
Accounts receivable, not due	5	–	37	–
Accounts receivable, due 0 – 30 days	–	–	623	–
Accounts receivable, due >30 days – 90 days	–	–	–	–
Accounts receivable, due >90 days – 180 days	–	–	–	–
Accounts receivable, due >360 days	–		–	–
	5	–	660	–

Note 21 • Pledged assets, contingent liabilities and contingent assets

Pledged assets	Group		Parent Company	
SEK thousands	**2017**	2016	**2017**	2016
In the form of assets pledged for own liabilities and provisions				
Property mortgage	260,000	260,000	–	–
Assets with ownership reservation	979	3,342	979	3,342
Total	**260,979**	**263,342**	**979**	**3,342**
Other collateral provided and pledged assets				
Pension insurances	37,191	35,118	37,191	35,118
Total pledged assets	**298,170**	**298,460**	**38,170**	**38,460**

Contingent liabilities	Group		Parent Company	
SEK thousands	**2017**	2016	**2017**	2016
Guarantees for the benefit of Group companies	–	–	209,433	214,688
Total contingent liabilities	**–**	**–**	**209,433**	**214,688**

Note 22 • Group companies

Holdings in subsidiaries

SEK thousands	Corp. Reg. No.	Registered office	No. of shares/percentage	Nominal value	Carrying amount Dec. 31, 2017	Carrying amount Dec. 31, 2016
Active Forskaren 1 KB	969646-4677	Lund			40,000	40,000
Actinova AB	556532-8860	Lund	1,000 / 100%	100	50	100
Active Security Trading AB	556092-7096	Lund	400 / 100%	400	450	450
Total					**40,500**	**40,550**

Change in carrying amount of shares in subsidiaries

SEK thousands	2017	2016
Cost, January 1	40,550	40,550
Accumulated cost, December 31	40,550	40,550
Impairment, January 1	–	–
Impairment for the year	-50	–
Accumulated impairment, December 31	-50	–
Carrying amount, December 31	40,500	40,550

Note 23 • Supplementary data to the cash-flow statement

	Group		Parent Company	
SEK thousands	**2017**	2016	**2017**	2016
Interest paid and dividends received				
Interest received	14	166	14	166
Interest paid	-7,155	-7,081	-5	-5
Total	**-7,141**	**-6,915**	**9**	**161**
Adjustments for non-cash items				
Depreciation/amortization and impairment of assets	56,589	11,768	72,916	16,189
Total	**56,589**	**11,768**	**72,916**	**16,189**
Transactions not involving payment				
Acquisition of assets through financial leasing	212	–		
Cash and cash equivalents				
Cash and cash equivalents consist of the following components:				
Cash and bank balances	5,424	8,963	1,457	4,483
Short-term investments	19,728	68,714	19,728	68,714
Total	**25,152**	**77,677**	**21,185**	**73,197**

Reconciliation of liabilities deriving from financing activities

			Changes that do not affect cash flow		
Group, SEK thousands	Closing balance, Dec. 31, 2016	Cash flows	New leases	Exchange-rate differences	Closing balance, Dec. 31, 2017
Interest-bearing liabilities	214,688	-5,255	–	–	209,433
Leasing liabilities	1,590	-823	212	–	979
Total liabilities deriving from financing activities	**216,278**	**-6,078**	**212**	**–**	**210,412**

Note 24 • Important estimates and assessments

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

Forskaren 1 property
The company owns the Forskaren 1 property. The company conducts operations in the property and leases the property to other companies. On assignment from the company, Thomas Ahlbeck Fastighetsekonomi AB performed a valuation of the property at the end of 2017 (see Note 11). The estimated market value is based on assumptions on future revenues, expenses, vacancy levels and the value trend of similar properties. At December 31, 2017, the property's market value was estimated at SEK 275 M.

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

Note 25 • Events after the end of the financial year

Patent application regarding tasquinimod for the treatment of multiple myeloma approved in the US.
Application for the second product patent in the SILC project approved in the US.
The company announced on February 15, 2018 that the Board proposes a rights issue of approximately SEK 48 M with pre-emptive rights for shareholders. The rights issue was covered by subscription commitments and emission guarantees of approximately SEK 30 M, corresponding to approximately 61 percent of the rights issue.
The AGM, in accordance with the Board's proposal, resolved on a new share issue with preferential rights for the shareholders of 48,412,160 shares corresponding to approximately SEK 48 million, before issue costs. After the end of the subscription period, the summary of the issue of 46,661,187 shares, corresponding to approximately 96 percent of the shares offered, was subscribed for by subscription rights. In addition, subscriptions for subscription without preferential rights were received of 14,649,060 shares corresponding to approximately 30 percent of the rights issue. The agreed emission guarantee was therefore not utilized.

Note 26 • Related-party transactions

Close relationships
With regard to the Group's and Parent Company's subsidiaries, see Note 22.
The composition of the Board and information relating to senior executives is presented on pages 56 and 57.

Related-party transactions
During the year, no transactions with shareholders or members of the Board took place apart from the remuneration concerning Board fees presented in Note 6.
For information concerning transactions with key individuals in managerial positions, see Note 6.
In 2017, the Parent Company's sales of services to Group companies totaled SEK 18,202 thousand (18,946). The Parent Company's purchases of services from subsidiaries amounted to SEK 13,681 thousand (14,818) in 2017.
The Parent Company's receivables and liabilities relative to the subsidiaries as per December 31, 2017 are presented in the Parent Company's balance sheet.

Note 27 • Information relating to the Parent Company

Active Biotech AB is a Swedish-registered limited liability company with its registered office in Lund, Sweden. The Parent Company's shares are listed on Nasdaq Stockholm.
The address of the head office is Scheelevägen 22, Lund, Sweden. The consolidated financial statements for the 2017 fiscal year comprise the Parent Company and its subsidiaries, referred to jointly as the Group.

Approval and adoption

The Annual Report and the consolidated financial statements were approved for issue on April 20, 2018. The consolidated income statement, statement of comprehensive income and statement of financial position and the Parent Company's income statement and balance sheet will be subject to adoption by the Annual General Meeting on May 17, 2018.

Statement by the Board of Directors

The Board of Directors and the President & CEO affirm that the Annual Report was prepared in accordance with generally accepted accounting principles in Sweden and that the consolidated financial statements were prepared in accordance with the international accounting standards referred to in regulation (EC) No. 1606/2002 of the European Parliament and the Council dated July 19, 2002 governing the application of international accounting standards. The annual accounts and the consolidated financial statements provide a true and fair view of the Group's and Parent Company's financial position and results of operations. The Directors' Report for the Group and the Parent Company provides a true and fair view of the Group's and the Parent Company's operations, position and results, and describes significant risks and uncertainties that the Parent Company and Group companies face.

Lund, April 20, 2018
The Board of Directors of Active Biotech AB (publ)

MATS ARNHÖG
Chairman

MAGNHILD SANDBERG-WOLLHEIM
Board member

PETER SJÖSTRAND
Board member

PETER THELIN
Board member

HELÉN TUVESSON
President & CEO

We submitted our Audit Report on April 20, 2018
KPMG AB

LINDA BENGTSSON
Authorized Public Accountant

Auditor's report

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

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Active Biotech AB (publ) for the year 2017. The annual accounts and consolidated accounts of the company are included on pages 6-41 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's Board of directors in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

Key Audit Matters

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

Financing

See disclosure 24 and the description of Risk factors and Outlook for 2018 in the Directors' report on pages 15 and 18 in the annual account and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

The business of the group is focused on supporting its partners Teva Pharmaceutical Industries Ltd in the developing of laquinimod and NeoTX in the development of ANYARA but also on performing activities to identify partners for the continued development of tasquinimod, paquinimod and the early pre-clinical projects of the SILC-program.

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

During the second quarter, the board took the decision to start a process to divest the group's property. The sales process is initiated but have not yet been finalized.

Cash and cash equivalents amount to 25 SEK million at 31 December 2017.

In March 2018, an extraordinary meeting of the shareholders resolved on a share issue, with pre-emptive rights for the existing shareholders. The share issue is covered by subscription commitments and issue guarantees of approximately 30 SEK million. At the end of the subscription period on April 11, 2018, new shares in an amount of approximately 48 SEK million has been subscribed, which will contribute the group approximately 47 SEK million after issue costs.

Response in the audit

We have considered the decision of the Board to apply the going concern principle when preparing the annual accounts and consolidated accounts. We have evaluated the latest available cash forecast and assessed the reasonableness and support for the judgments underpinning the forecasts. We discussed with group management how they determined the assumptions and considered these in our assessment. The key areas that we have focused on in the cash forecast are:

- Expected payments related to the property Forskaren 1, such as rental income, amortizations and interest payments;

- Expected cash flows from other sources such as development partnership;
- Expected cash flows from the remaining operating activities;
- Access to future financing such as a rights issue or sale of real assets.

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

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

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

Valuation of property
See disclosure 11 and accounting principles on page 24-25 in the annual account and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

The carrying value of the property Forskaren 1 is 272 SEK million, representing 89% of total assets of the group.

The property is until the second quarter 2017 valued in accordance with the revaluation model, which means that it is valued at fair value less accumulated depreciation and adjustments for revaluations. As a consequence of the board decision to divest the property, it was reclassified during the second quarter to Asset held for sale. The property is thereafter valued at fair value less cost to sell.

The fair value estimate as at 31 December 2017 is based on an external, independent valuation. The valuation is conducted based on a market simulation through a yield-based market value assessment and through the local market price method.

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

Response in the audit

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

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

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

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-5, 47-51 and 56-59. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility
Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

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

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

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

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

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions
In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Active Biotech AB (publ) for the year 2017 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions
We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent

company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director

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

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

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

Auditor's responsibility

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

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

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

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

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

KPMG AB, Box 227, 201 22 , Malmö, was appointed auditor of Active Biotech AB (publ) by the general meeting of the shareholders on the 15 June 2017. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 1999.

Malmö, April 20, 2018

KPMG AB

Linda Bengtsson
Authorized Public Accountant

Summary of financial development

SEK M	2017	2016	2015	2014	2013
Income statement					
Net sales	20.2	19.0	16.3	10.4	116.0
Operating expenses	-122.7	-74.1	-194.2	-238.8	-325.0
(of which. depreciation/amortization)	-6.1	-11.8	-12.0	-12.3	-13.0
Operating loss	**-102.5**	**-55.1**	**-177.9**	**-228.4**	**-209.0**
Net financial expense	-7.4	-6.7	-6.8	-5.3	-5.3
Loss before tax	**-109.9**	**-61.8**	**-184.7**	**-233.7**	**-214.3**
Tax	1.1	2.2	-8.8	2.2	2.2
Loss for the year	**-108.8**	**-59.6**	**-193.5**	**-231.5**	**-212.1**
Balance sheet					
Tangible fixed assets	1.7	328.1	329.8	381.6	381.0
Financial fixed assets	0.0	0.0	0.0	0.0	0.0
Other current assets	276.9	7.1	16.0	12.4	10.6
Cash and cash equivalents	25.2	77.7	103.6	328.5	376.2
Total assets	**303.8**	**412.9**	**449.4**	**722.5**	**767.8**
Shareholders' equity	77.7	182.6	180.6	405.3	405.4
Interest-bearing provisions and liabilities	210.4	216.3	222.8	229.5	230.95
Non interest-bearing provisions and liabilities	15.7	14.0	46.0	87.7	131.5
Total shareholders' equity and liabilities	**303.8**	**412.9**	**449.4**	**722.5**	**767.8**
Condensed cash-flow statement					
Cash flow from operating activities before changes in working capital	-53.3	-50.0	-172.7	-221.5	-201.4
Changes in working capital	6.9	-23.1	-45.2	-45.6	99.1
Cash flow from investing activities	–	–	–	-1.9	0.0
Cash flow from financing activities	-6.1	47.2	-6.9	221.3	261.8
Cash flow for the year	**-52.5**	**-25.9**	**-224.8**	**-47.7**	**159.5**
Key figures					
Equity/assets ratio (%)	26	44	40	56	53
Earnings per share (SEK)	-1.12	-0.65	-2.13	-3.02	-2.81
Dividends (SEK)	0	0	0	0	0
Research and development costs (SEK M)	-49.4	-58.2	-176.2	-221.9	-308.0
Average number of employees	17	28	55	58	61
Salary expenses, incl. social-security costs (SEK M)	-29.7	-28.4	-67.9	-60.6	-63.5
Number of shares at end of period (thousands)	96,824	96,824	89,908	74,924	74,924

Alternative performance measures and definitions

Alternative performance measures are used to describe the development of operations and to increase comparability between periods. These are not described on the basis of IFRS regulations but they do coincide with how group management and the board of directors measure the Company's financial performance.

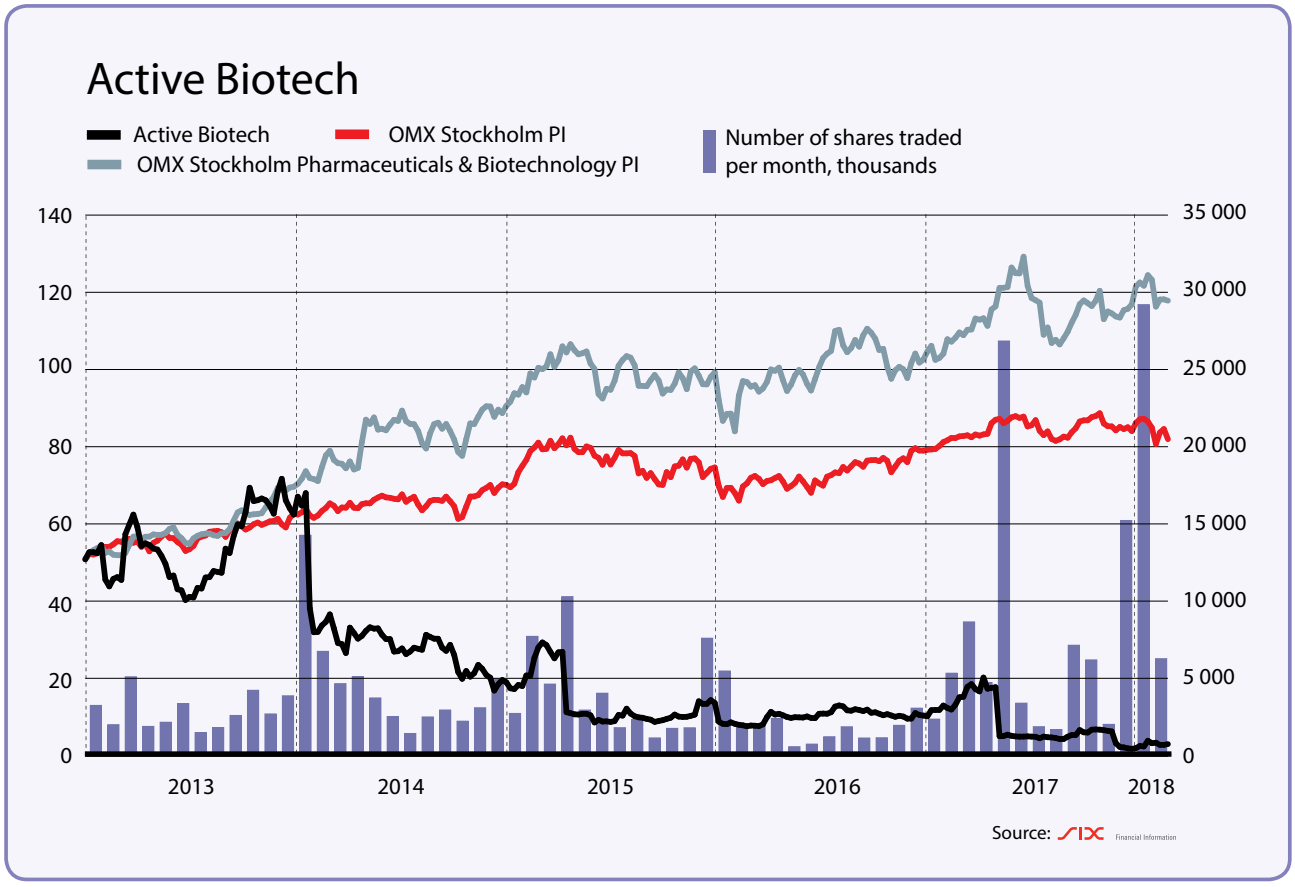
Alternative performance measures should not be viewed as a substitute for financial information presented in conformity with IFRS but as a complement.

The equity/assets ratio is a measure of the company's financial position and is calculated by dividing recognized shareholders' equity by recognized total assets.

The share

General information about the Active Biotech share
Shares in Active Biotech AB are listed on Nasdaq Stockholm (Small Cap). The share was originally listed on December 1, 1986, on what was then known as the O-list of the Stockholm Stock Exchange. The company was transformed into a biotechnology company in 1997. The latest price information is available on Nasdaq's website under the ticker ACTI. The Active Biotech share is included in Nasdaq Stockholm's Pharmaceuticals, Biotech & Life Science index. The diagram in this section shows the price trend for the Active Biotech share for the period January 2013–February 2018.

Share capital
The company's share capital is quoted in SEK and distributed among the shares issued by the company with a quotient value that is also expressed in SEK. At December 31, 2017, the share capital in Active Biotech amounted to approximately 500,000 distributed among 96,824,320 shares. The share's quotient value is approximately SEK 0.005164.



Share price development

On the final day of trading in December 2016, the share price was SEK 10.45, while at the same date in 2017, it was SEK 1.74. The highest price paid for the share during the year was SEK 20.50 (April 12, 2017).

Changes in share capital

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

Dividend policy

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

Shareholders

On March 29, 2018, the number of shareholders in Active Biotech amounted to 13,374.

Shareholders

The following reflects circumstances as known to the company at March 29, 2018.

Owner	No. of shares	Holding, %
MGA Holding AB	25,334,270	26.2
Nordstjernan AB	12,730,301	13.1
Avanza Pension	4,089,574	4.2
Third Swedish National Pension Fund	2,595,815	2.7
Fourth Swedish National Pension Fund	2,051,706	2.1
BNYMSANV RE GCLB RE BNY GCM CLIENT	1,699,850	1.8
EFG Bank / Geneva, W8IMY	1,566,446	1.6
SEB-Stiftelsen, Skand Enskilda	1,292,307	1.3
East Bay AB	1,000,000	1.0
SEB Life International	872,307	0.9
Ten largest owners	**53,232,576**	**55.0**
Total	**96 ,824,320**	**100.0**

Shareholder statistics, March 29, 2018

Shareholding interval	No. of shareholders	% of all shareholders	No. of shares	% of all share capital	Average per shareholder
1 – 1,000	9,442	70,6	2 562 507	2,6	271
1,001 – 10,000	3,288	24,6	10 651 972	11,0	3 240
10,001 – 100,000	575	4,3	15 221 953	15,7	26 473
100,001 –	69	0,5	68 387 888	70,6	991 129
Total	13,374	100,0	96 824 320	100,0	7,240

Changes in share capital

Year	Transaction	Change in number of shares	Change in share capital	Total no. of shares Class A shares	Total no. of shares Class B shares	Total share capital, SEK	Quotient value, SEK
	Opening balance			1,963,745	9,282,547	281,157,300	25.00
2000	Reclassification A to B	0	0	1,287,531	9,958,761	281,157,300	25.00
2001	Reclassification A to B	0	0	1,169,691	10,076,601	281,157,300	25.00
2002	Reclassification A to B	0	0	1,145,024	10,101,268	281,157,300	25.00
2003	Reduction of share capital (June)	0	-168,694,380	1,145,024	10,101,268	112,462,920	10.00
2003	Rights issue (June)	22,492,584	224,925,840	1,145,024	32,593,852	337,388,760	10.00
2003	Reclassification A to B	0	0	1,128,174	32,610,702	337,388,760	10.00
2003	Reorganization as a single share class (Dec.)	0	0	33,738,876		337,388,760	10.00
2005	Conversion (Jan.-May)	1,681	16,810	33,740,557		337,405,570	10.00
2005	Rights issue (June / July)	5,623,426	56,234,260	39,363,983		393,639,830	10.00
2005	Conversion (Aug.-Sep.)	228,241	2,282,410	39,592,224		395,922,240	10.00
2006	Conversion (Jan.-May))	160,644	1,606,440	39,752,868		397,528,680	10.00
2006	Reduction of share capital (May)	0	-247,686,499	39,752,868		149,842,181	3.77
2006	Conversion (June-Dec.)	42,553	160,397	39,795,421		150,002,578	3.77
2007	Conversion (Jan.)	204,579	771,128	40,000,000		150,773,706	3.77
2007	Rights issue (Feb.)	4,000,000	15,077,371	44,000,000		165,851,077	3.77
2007	Conversion (March)	3,300,115	12,439,264	47,300,115		178,290,341	3.77
2008	Rights issue (June)	3,941,676	14,857,527	51,241,791		193,147,869	3.77
2009	Rights issue (June)	12,810,447	48,286,964	64,052,238		241,434,833	3.77
2010	Private placement (April)	1,418,000	5,344,928	65,470,238		246,779,761	3.77
2010	Employee stock options	529,682	1,996,553	65,999,920		248,776,314	3.77
2011	Private placement (Jan.)	2,500,000	9,423,357	68,499,920		258,199,670	3.77
2011	Employee stock options	423,662	1,596,927	68,923,582		259,796,598	3.77
2013	Private placement (March)	6,000,000	22,616,055	74,923,582		282,412,653	3.77
2015	Rights issue (Jan.)	14,984,716	56,482,529	89,908,298		338,895,183	3.77
2016	Rights issue (Dec.)	6,916,022	26,068,856	96,824,320		364,964,039	3.77
2017	Reduction of share capital (June)	0	-364,464,039	96,824,320		500,000	0.005

Patents

The Company's patent portfolio covers inventions of chemical compounds, biotechnological structures, methods, usage and processes related to the Company's operation in key markets. Active Biotech has built its position in the area of patents through strategically defined patent families, primarily in the areas of autoimmunity/inflammation and cancer. Patents and patent applications refer primarily to such commercially important markets as Europe, the United States and Japan.

Laquinimod, tasquinimod and ANYARA are specifically protected by several patent families with a large number of national patents approved, see table below.

In the last few years, the Company has strengthened its patent portfolio with, among other things, two new patent families, with patent protection until 2035, for the treatment of blood cancer diseases using tasquinimod. Patents have so far been granted in Europe for tasquinimod for the treatment of multiple myeloma and acute forms of leukemia.

Within the early stage development project SILC, focused on currently unknown compounds that target the S100A9 protein, the patent portfolio, protected until 2034 and 2035, comprises, in total, three patent families regarding chemical substances. So far, two of the patent families have been granted patent in Europe and one in the United States.

In 2017, the Company's partner NeoTX has further strengthened its patent portfolio by submitting a patent application regarding the combination effects with ANYARA and checkpoint PD-1 inhibitors for the treatment of cancer. If granted, these patents would provide potential extension of ANYARA protection until 2036.

The Company's patent portfolio also includes patents for substances closely related to laquinimod and tasquinimod and also for the paquinimod project.

The Company has either been granted patent or has pending patent applications according to the following tables:

Patent protection for tasquinimod

Type of protection	Area	Status	Year of expiry
Product (WO00003991)	Europe US Japan *(total 53)*	Granted Granted Granted *(granted 53)*	2019 2019 2019
Treatment method (WO0130758)	Europe US Japan *(total 27)*	Granted Granted Granted *(granted 27)*	2020 2020 2020
Manufacturing method (WO03106424)	Europe US Japan *(total 53)*	Granted Granted Granted *(granted 52, application 1)*	2023 2025 2023
Alternative manufacturing method (WO2012004338)	Europe US Japan *(total 36)*	Granted Granted Granted *(granted 33, application 3)*	2031 2031 2031
Treatment method (WO2016042112)	Europe US Japan *(total 26)*	Granted Granted Application *(granted 13, application 13)*	2035 2035 2035
Treatment method (WO2016078921)	Europe US Japan *(total 25)*	Granted Application Application *(granted 12, application 13)*	2035 2035 2035

Patent protection for ANYARA

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

Patent protection for laquinimod

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

Patent protection for SILC

Type of protection	Area	Status	Year of expiry
Product (WO2014184234)	Europe US Japan *(total 21)*	Granted Granted Application *(granted 13, application 8)*	2034 2034 2034
Product (WO2015177367)	Europe US Japan *(total 20)*	Granted Granted Application *(granted 10, application 10)*	2035 2035 2035
Product (WO2016042172)	Europe US Japan *(total 20)*	Application Application Application *(application 20)*	2035 2035 2035

Corporate Governance Report 2017

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

Application of and deviations from the Code

Active Biotech applies the Swedish Corporate Governance Code (the Code). Information about the Code can be found at www.corporategovernanceboard.se. The company deviated from item 2.4 of the Code in 2017. The Election Committee appointed the Chairman of the Board to be the Chairman of the Election Committee. The motivation for this is the Election Committee's assessment that is natural that the person who is indirectly the largest owner of Active Biotech should also lead the work of the Election Committee.

Shareholders

At December 31, 2017, the number of shareholders in Active Biotech amounted to 12,031. For information concerning the company's major shareholders and the ownership structure, see page 49 of this Annual Report.

Annual General Meeting

The Annual General Meeting (AGM) is Active Biotech's highest decision-making body. In addition to shareholders' statutory rights to participate in the AGM, Active Biotech's Articles of Association stipulate the requirement of advance notification of participation at the Meeting within a prescribed time as stated in the notice of the AGM. The shareholder is to state the number of accompanying assistants, if any, in such notification. At the AGM, each share carries one vote. Each shareholder entitled to vote at the Meeting may vote for the full number of shares held. Each share offers equal entitlement to dividends and any surplus on liquidation of the company. At the AGM, which is held not more than six months after the close of the fiscal year, the annual accounts for the preceding year are adopted, the Board of Directors is elected, auditors are appointed, if applicable, and other statutory matters are addressed. Between AGMs, the Board of Directors is the company's highest decision-making body.

At the AGM on June 15, 2017, it was resolved to grant authorization to the Board, for a period that does not extend past the date of the next AGM, on one or several occasions, with or without pre-emptive rights for shareholders, to resolve on the issue of new shares and/or convertibles. It should also be possible to make such an issue resolution stipulating in-kind payment, the right to offset debt or other conditions. The authorization may not be utilized to a greater extent than would enable a total of not more than nine million shares to be issued and/or arise through the conversion of convertibles issued with the support of the authorization.

Election Committee

At the AGM on June 15, 2017, it was resolved that the company's Chairman, based on ownership at the end of September 2017, convene an Election Committee to prepare proposals for the 2018 AGM. According to the resolution, the Election Committee comprises the Chairman of the Board and representatives of each of the three largest shareholders in the company. The members of the Election Committee receive no remuneration from the company for their work. The Election Committee performs the tasks incumbent on the Election Committee under the Code. The composition of the Election Committee was announced on November 17, 2017. A meeting of the Election Committee was convened on one occasion ahead of the 2018 AGM, which was attended by all of its members.

Members	Represents	Board member or not
Mats Arnhög	Chairman of the Board	Chairman
Johnny Sommarlund	MGA Holding AB	Not a member
Tomas Billing	Nordstjernan AB	Not a member
Per Colleen	Fourth Swedish National Pension Fund	Not a member

Board of Directors

In accordance with Active Biotech's Articles of Association, the Board comprises between three and nine members with at most nine deputies. The 2017 AGM elected the current Board, which consists of four ordinary members with no deputies. Mats Arnhög was elected Chairman of the Board. The AGM resolved that remuneration of the Board's ordinary members be paid in the amount of SEK 125,000 per year for Board members who are not employed at the company, and remuneration of the Chairman of the Board be paid in the amount of SEK 250,000 per year. For a more detailed presentation of the Board members and President & CEO, see page 56–57 of this Annual Report. Of the Board members elected by the 2017 AGM, all are independent in relation to the company and executive management. Three of the four members are independent in relation to the company's

major shareholders. Mats Arnhög is not independent of the shareholder MGA Holding AB, in which he is Chairman of the Board and owner.

The work of the Board and formal work plan

The Board works in accordance with an established formal work plan describing the minimum number of Board meetings to be held each year, routines for the preparation of the agenda minutes of the meetings as well as the distribution of material. One section of the formal work plan regulates the division of duties in the Board and describes the responsibilities of the Board, the Chairman and the President & CEO. The Board principally devotes itself to general and long-term issues as well as to issues of an exceptional nature or of otherwise substantial importance. The Chairman directs the work of the Board and represents the Board both externally and internally. The formal work plan also identifies the Board members who, in accordance with specific decisions, have been appointed as the management's contacts in the event of a crisis. At each scheduled Board meeting, the President & CEO reports on operations. The report comprises information on project development, plans and progress in research activities, financial reporting with forecasts as well as business development. The Board decides on issues in which the Swedish Companies Act and the Articles of Association require the Board's decision as well as on such issues as policy matters, strategy, business decisions (such as research plans), budget, business plans and key agreements. In 2017, 11 meetings were held at which minutes were taken. Important issues addressed by the Board included development of research projects, business development projects, partner strategy, financial statements and budget and financing matters. Minutes were recorded by the Board's secretary, a role that was filled by the company's CFO Hans Kolam during the year. The Chairman of the Board ensures that an annual assessment of the Board's work is conducted that provides the Board members with the opportunity to present their views on work procedures, Board material, their own efforts and the efforts of other Board members and the scope of the task.

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

Board member	Attendance at Board meetings	Independent/dependent Company	Owners
Mats Arnhög	11/11	independent	dependent
Peter Thelin	11/11	independent	independent
Peter Sjöstrand	11/11	independent	independent
Magnhild Sandberg	9/11	independent	independent

Remuneration and Audit Committee

The company does not have separate committees for remuneration and audit matters. Instead, these matters are dealt with by the Board in its entirety. Salaries, remuneration, terms and conditions of employment and so forth, for the Board, President & CEO and executive management are detailed in Note 6 on pages 27–29.

Control systems and risk management regarding financial reporting

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

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

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

1. Control environment

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

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

2. Risk assessment

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

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

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

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

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

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

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

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

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

Auditors
The company has at least one and at most two auditors and at most two deputy auditors. At the AGM on June 15, 2017, KPMG AB was elected as the company's auditor for the period extending until the end of the AGM held in 2018. Authorized Public Accountant Linda Bengtsson is auditor-in-charge. Information concerning auditors' fees is presented in Note 5 on page 27. The interim report for the January-September period 2017 was the subject of review by the auditors.

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

Environmental policy
Within Active Biotech, environmental and safety work is important and the company has therefore established an environmental policy. Responsibility is decentralized in the various departments in the Group so that each manager and employee is responsible for meeting goals relating to both the internal and external environment, as well as safety. This applies to all areas from proprietary research to contract manufacturing of candidate drugs and production. In addition, Active Biotech places great importance to ensuring that external partners have their own environmental and safety requirements that conform to the company's values.

Responsible treatment of laboratory animals

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

Auditors' report on the Corporate Governance Report

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

Assignment and responsibility

The Board of Directors is responsible for the 2017 Corporate Governance Report on pages 52–55 and for ensuring that it has been prepared in accordance with the Annual Accounts Act.

Scope of review

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

Opinion

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

Malmö, April 20, 2018

Linda Bengtsson
Authorized Public Accountant
KPMG AB

Board of Directors and Auditors

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

Born: 1951.

Education:
M.Sc. Stockholm School of Economics.

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

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

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

Peter Thelin
Board member since 2011.

Born: 1956.

Education:
Graduate, Stockholm School of Economics.

Other current assignments:
President of Carve Capital AB.
Board member of Brummer & Partners AB, East Bay AB with subsidiaries, Sjuenda Holding AB and Järna Mejeri AB.

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

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

Peter Sjöstrand
Board member since 2000.

Born: 1946.

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

Other current assignments:
Chairman of Byggnads AB S:t Erik and the Oscar Hirsch's Memory Foundation.
Board member of Ringens Varv AB, Peter Sjöstrand AB, SAMF Sweden AB and assignments in the Acturum Group.
Alternate Board member of Materulla AB.
Member of Vatera Holding Advisory Board.

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

Holding in the company:
25,846 shares.

Magnhild Sandberg-Wollheim
Board member since 2007.

Born: 1937.

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

Other current assignments:
Board member of MS-konsulten AB, Parkinson Research Foundation and European MS Foundation.

Previous assignments (past five years): None.

Holding in the company: None.

Auditors
KPMG AB with Linda Bengtsson as auditor-in-charge.

Born: 1974.

Company auditor at Active Biotech AB since 2016.
Authorized Public Accountant KPMG.

Executive management

Helén Tuvesson
President and CEO. Employed by the company since 1998. Helén Tuvesson has more than 25 years of experience in the pharmaceuticals industry, having held various positions at Pharmacia and Active Biotech

Born: 1962.

Education:
PhD in medical science, Lund University.

Other current assignments:
None.

Previous assignments (past five years):
None.

Holding in the company:
7,928 shares.

Helena Eriksson
Chief Scientific Officer. Employed by the company since 1998. Helena Eriksson has more than 20 years' experience in the pharmaceutical industry.

Born: 1968.

Education:
PhD in experimental hematology, Lund University.

Other current assignments:
None.

Previous assignments (past five years):
None.

Holding in the company:
2,196 shares.

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

Born: 1951.

Education:
M.Sc. Economics, Uppsala University.

Other current assignments:
None.

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

Holding in the company: 35,641 shares (of which 2,464 shares via related parties).

Glossary

ANYARA Active Biotech's candidate drug against cancer being developed in cooperation with NeoTX.

Autoimmunity When the body's immune system reacts against structures in the body itself. Autoimmune diseases arise when the immune system combats the body itself, despite it being otherwise healthy.

BDNFBrain Derived Neurotrophic Factor – a protein that stimulates nerve growth.

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

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

Clinical studies Studies of how a pharmaceutical affects humans.

CNS Central nervous system.

EMA European Medicines Agency.

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

Pharmacokinetics Study of how drugs change in the body from absorption to excretion; studies how and when the drug is distributed to the target organ and how it is absorbed there.

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

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

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

FASS Farmaceutiska Specialiteter i Sverige – Swedish Medicines Information portal

FDA Food and Drug Administration, the US pharmaceuticals authority.

Huntington's disease A hereditary neurological disease.

Immune checkpoint inhibitors A new group of tumor therapies, for example, PD-1 inhibitors, that work by boosting the patient's immune response to the tumor.

Inflammation The body's response to localized damage.

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

Laquinimod Active Biotech's candidate drug for treatment of neurodegenerative diseases.

Lupus Refer to SLE.

mCRPC Metastatic castrate-resistant prostate cancer.

MediGene MediGene AG, Active Biotech's partner for RhuDex.

MS Multiple sclerosis, a chronic autoimmune neurodegenerative disease.

Multiple Myeloma A bone marrow cancer.

NeoTX NeoTX Therapeutic s Ltd, Active Biotech's partner for ANYARA.

Neurodegenerative Degenerative for the nervous system.

Orphan drug status New drugs for patients with rare and serious diseases may be granted orphan drug status, providing market exclusivity for seven to ten years, among other benefits.

Paquinimod Active Biotech's candidate drug in the 57-57 project against systemic sclerosis.

Patent Exclusive rights to a discovery or invention.

PFS Progression-free survival.

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

PPMS Primary progressive MS.

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

Quinoline The compound class to which laquinimod and tasquinimod belong.

RRMS Relapsing remitting multiple sclerosis.

SILC Active Biotech's preclinical project, "S100A9 Inhibition by Low molecular weight Compounds".

SLE Systemic lupus erythematosus; a chronic autoimmune disease.

Systemic sclerosis A rare disease of the connective tissue.

Tasquinimod Active Biotech's candidate drug for the treatment of multiple myeloma, among other diseases.

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

Business concept, objectives and business strategy

Business concept
Active Biotech's business concept is to utilize knowledge of the immune system to develop pharmaceuticals in therapeutic areas with high medical need.

Goal
Active Biotech's goal is to develop new drugs aimed to improve the treatment of patients with cancer and neuro-degenerative diseases.

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

- Achieve the greatest possible growth in value in each project and seek collaboration with strong partners for each project at the appropriate stage.
- Progress the clinical development and commercialization of the company's selected compounds together with partners with relevant expertise.

Active Biotech will also:

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

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