

**Active Biotech
Interim report
January – March 2006**

- **All clinical projects progressing according to plan**
- **Patent application submitted related to the mode of action of quinoline compounds**
- **Partnership agreement signed with Chelsea Therapeutics for the I-3D project**
- **Net sales: SEK 1.7 million (0.8)**
- **Operating loss: SEK 43.0 million (loss: 48.1)**
- **Loss after tax: SEK 47.4 million (loss: 53.4)**
- **Loss per share for the period: SEK 1.19 (loss: 1.54)**

Phase II study of laquinimod proceeding according to plan

Teva's additional Phase II multi-center study to establish the optimal dose for pivotal Phase III studies is proceeding according to plan. Recruitment for this study commenced in the first half of 2005 and comprises slightly more than 300 patients with relapsing MS. The study measures the effect of laquinimod, administered once daily in tablet form, at a dose of 0.3 mg/day and 0.6 mg/day during nine months versus placebo.

Based on the results of this Phase II study, the pivotal Phase III program is intended to be initiated with the aim of confirming laquinimod's efficacy and safety in the treatment of relapsing MS.

Multiple sclerosis (MS) is a chronic, progressive disease affecting the central nervous system. It is described as an autoimmune disease since it belongs to a large group of diseases that cause the body's immune defense system to attack healthy areas of the body as if they were foreign bodies. MS can cause anything from minor symptoms for lengthy periods to severely incapacitating symptoms within a few years. Initially, MS comes in "flare-ups" with alternating periods of deterioration and stability. The disease mainly affects young people, and more women than men; the average age of onset of the disease is about 30. The total market for MS pharmaceuticals amounted to USD 5 billion in 2005 (Cowen). Since MS patients must be on medication throughout their lifetime, an oral treatment creates a substantial advantage compared with existing products in the market, all of which must be injected.

Patent application submitted related to the mode of action of quinoline compounds

The first target molecule for the quinoline-compound group (the laquinimod, TASQ and 57-57 projects) has been defined. The target molecule demonstrates a structure/activity relationship between the binding of quinoline compounds and biological activity in an experimental model for autoimmune diseases. A patent application was submitted in March 2006.

To date, the exact mode of action for quinoline compounds has not been known. The now defined target molecule is, among others, expressed by a subpopulation of dendritic cells. These dendritic cells have increasingly become a focus in immunology research and are a central cell type in the early activation of the immune response. It is during the interaction between dendritic cells and T lymphocytes that the qualitative characteristics of the response are defined.

Many immunoregulatory compounds only regulate the immune system quantitatively and are immunosuppressive. The quinolines are immunomodulatory and affect the immune system in a qualitative way. It is hence of great interest to elucidate the mode of action for the quinoline compounds and to describe how they differ from other compounds in clinical development.

The new results are important and strengthen the documentation of the company's ongoing clinical projects. It can also be a basis on which to develop entirely new drugs for autoimmune diseases.

A detailed description of the target molecule's structure and activity will be published following full documentation of the submitted patent application.

ANYARA cancer project proceeding according to plan

The Phase I dose-escalation study with ANYARA and the Phase I combination study with ANYARA and the chemotherapy drug Taxotere® are proceeding according to plan. The dose-escalation study is being performed in the US, Norway and the UK and involves a total of 50 patients. The combination study is being conducted at clinics in the US, Denmark and Russia and comprises approximately 30 patients.

Active Biotech has gained acceptance for a poster with the title "An open-label Phase I study of ABR-217620, a fusion protein of the 5T4 antibody moiety and an engineered superantigen, in patients with non-small cell lung, renal cell or pancreatic cancer" at ASCO's (American Society of Clinical Oncology) annual conference, which will be held at the beginning of June in Atlanta, in the US. The results are a compilation of data related to previously presented interim data (*December 15, 2005: Active Biotech reports Interim Results for ANYARA Phase I Clinical Trial*) from the ongoing dose-escalation study.

Based on the positive survival data presented earlier for renal cancer (*September 29: Active Biotech presents survival data for cancer drug*), a Phase II/III study on renal cancer patients is scheduled to commence during the year. Detailed development planning for this study is currently in progress.

Non-small cell lung cancer is one of the most common types of cancer. It is also the form of cancer with the highest annual mortality rate (WHO). Each year, 1.2 million people are afflicted by lung cancer. Non-small cell lung cancer comprises approximately 80% of the number of lung cancer cases with a mortality rate of 85-90%. The pharmaceutical market for lung cancer is estimated to be over USD 1 billion.

Renal cancer affects approximately 32,000 people annually in the US (US FDA, December 2005) The most common age of onset of the disease is between 50 and 70 and it affects more men than women. Five-year survival for non-metastatic disease is approximately 55%. If the disease has metastasized to the lymph nodes, five-year survival declines to 5-15 %. The pharmaceutical market for renal cancer is estimated to be USD 800 million.

Expanded clinical trials with prostate cancer patients proceeding according to plan for TASQ

The prostate cancer patients included in the Phase I dose-escalation study are continuing their treatment in a follow-up study, which is primarily intended to document the drug's long-term tolerance and safety, but also includes efficacy parameters.

In the autumn of 2005, permission was obtained from the Swedish Medical Products Agency to include an additional ten patients in the study, making it possible to obtain extended safety and efficacy data earlier than planned. All patients are now included and it is estimated that the study can be evaluated in the third quarter of this year.

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

Phase II/III studies are scheduled to commence in 2007.

The objective for the company's TASQ project is to develop a pharmaceutical product that can be administered orally for the treatment of prostate cancer. Active Biotech is collaborating on this project with Professor John T. Isaacs of Johns Hopkins University in Baltimore, Maryland, in the US. Prostate cancer is one of the most common forms of cancer among men and accounts for almost one third of all cancers. Each year, more than half a million people are diagnosed with the disease, which principally affects men in their 50s and older. Prostate cancer has varying degrees of severity. Despite a relatively good prognosis, prostate cancer is the second most common cause of death among men. The pharmaceutical market for prostate cancer is estimated to exceed USD 3 billion.

Phase I clinical study with patients for the 57-57 project against SLE proceeding according to plan

The clinical program for the 57-57 project with the main indication Systemic Lupus Erythematosus (SLE) and the treatment of patients is continuing according to plan. Patients with Rheumatoid Arthritis (RA) are also included in the study. The clinical study will primarily document the candidate drug's safety and pharmacokinetic properties, but it will also monitor a number of biological markers to determine the effect of 57-57 on disease progression. This multi-center, dose-escalation study is being conducted at three hospitals in Sweden – the Karolinska University Hospital, in Stockholm, and the University Hospitals in Uppsala and Lund.

Phase II/III studies for this project are scheduled to take place in 2007.

In mid-June, Active Biotech will present its results in the form of a poster presentation that demonstrates that 57-57 effectively inhibits disease development in experimental models for Rheumatoid Arthritis (RA) (*Paquinimod ABR-215757 Inhibits Disease Development of Collagen Induced Arthritis in Mice; Anna Runström, Marie Törngren, Peter Lando & Bengt Axelsson*) at the European Congress of Rheumatology's annual conference (EULAR 2006), in Amsterdam, in the Netherlands.

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

Phase 1 studies for RhuDex® successfully concluded

In March 2006, Active Biotech’s partner Avidex Ltd successfully concluded two Phase I studies in which it monitored the RhuDex® candidate drug’s safety, tolerance and pharmacokinetic properties in healthy volunteers.

The next step in the clinical program is a Phase I/II double-blind, dose-escalation study in RA patients. The purpose of the study is to examine the drug’s safety and its pharmacokinetic properties as well as the interaction between RhuDex® and other drugs. Avidex plans to commence recruitment of patients in mid-2006.

For Active Biotech, the agreement with Avidex entails an initial payment, which was made in 2002, and milestone revenues that may amount to as much as GBP 5.8 million. In addition, Active Biotech will receive royalties on future sales. Active Biotech received a milestone payment from Avidex when the Phase I study commenced in the first half of 2005.

Other projects

Active Biotech has decided that the Chemokine project CCR-1, for which patent protection was secured, lies outside the company’s focus, and accordingly, Active Biotech will not pursue this project any further.

Events after the end of the report period

Partnership agreement signed with regard to the I-3D project

On May 9, Active Biotech and Chelsea Therapeutics International Ltd (NASDAQ: CHTP) signed an agreement to co-develop and commercialize the I-3D portfolio of orally active, Dihydroorotate dehydrogenase (DHODH) inhibiting compounds for the treatment of autoimmune diseases and transplant rejection.

Under the terms of the license, Active Biotech and Chelsea will jointly conduct and fund the clinical development of the I-3D portfolio via a Joint Development Committee with equal representation from both parties. The agreement provides Chelsea with the exclusive North and South American commercial rights, while Active Biotech retains the rights for the remaining global markets. In addition to sharing development costs, both Chelsea and Active Biotech will pay the other partner royalty payments on sales in their respective markets. Active Biotech will also receive certain defined milestone payments related to clinical development and commercialization.

Sale of property

In April, a purchase agreement was signed with Skanska Öresund AB regarding the sale of a divided property in Lund. The purchase consideration totaled approximately SEK 25 million.

Annual General Meeting of Active Biotech AB

Active Biotech AB held its Annual General Meeting on April 26, 2006. Board members Sven Andréasson, Mats Arnhög, Maria Borelius, Professor Klas Kärre, Peter Sjöstrand and Peter Ström were re-elected by the Meeting. The Meeting also resolved to appoint Mats Arnhög as Chairman of the Board.

Furthermore, the Meeting resolved that it shall be the duty of the Nomination Committee to propose the composition of the committee in the future. The Nomination Committee shall be composed of representatives of the three largest owners at December 31, as well as the Chairman of the Board.

The Meeting approved the Board's proposal to authorize the Board to decide on the issue of a maximum of 4,000,000 new shares and/or convertibles during the period extending to the next Annual General Meeting.

The AGM also approved the Board's proposal for adjustments to the 2003 employee stock options program, which permits an allocation of a maximum of 75,000 options per employee.

Financial information

Comment on the Group's results for January – March 2006

Consolidated net sales for the period amounted to SEK 1.7 million (0.8) and principally comprised rental and service revenues.

The operation's research and administration expenses totaled SEK 44.8 million (48.9), which corresponds to an 8% cost reduction attributable to a lower purchase level of external research services. The clinical development program comprises three Phase I projects – ANYARA, TASQ and 57-57, all of which are self-financing – and two other projects – laquinimod, in Phase II, and RhuDex, in Phase I, both of which are financed through partners.

The operating loss amounted to SEK 43.0 million (loss: 48.1), the improvement in earnings is mainly attributable to the lower level of expenses.

The net financial expense for the period was SEK 4.4 million (4.6). The current year's net financial expense includes interest expenses attributable to the convertible debenture issued in 2004 in an amount of SEK 3.0 million (3.2) and interest expenses related to the purchase of the property in which Active Biotech conducts operations in an amount of SEK 1.6 million (3.0).

The consolidated earnings after financial items amounted to a loss of SEK 47.4 million (loss: 53.4).

Liquidity and financial status

At the end of the period, the Group's cash and cash equivalents amounted to SEK 138.2 million, compared with SEK 178.4 million at year-end 2005. At the end of the period, unrestricted liquidity amounted to SEK 3.48 per share, compared with SEK 4.51 per share at year-end 2005.

Consolidated cash flow for the first quarter was negative in an amount of SEK 40.3 (neg: 62.8), which was attributable to the development in earnings during the period.

Parent Company Active Biotech AB

The operations of the Parent Company, Active Biotech AB, comprise Group-wide administrative functions. The Parent Company's net sales for the period amounted to SEK 0.9 million (1.3).

Operating expenses during the period totaled SEK 6.5 million (7.1). Net financial expenses for the period amounted to SEK 2.5 million (2.5). The loss after financial items amounted to SEK 8.1 million (loss: 8.3).

Only marginal investments in fixed assets were made during the period.

Cash equivalents and financial investments amounted to SEK 129.7 million at the end of the period, compared with SEK 157.4 million on January 1, 2006.

Share capital

Consolidated shareholders' equity at the end of the period amounted to SEK 134.4 million, compared with SEK 176.8 million at year-end 2005. A total of 39,742,926 shares were outstanding at the end of the period, representing an increase of 150,702 shares following the conversion of convertible debentures since the end of 2005. After full conversion of the convertible debentures issued in 2004 and the redemption of outstanding warrants, the number of shares in Active Biotech could increase to a maximum of 44.6 million shares.

At the end of the period, the equity/assets ratio for the Group was 25.7%, compared with 31.1% at December 31, 2005. The corresponding figures for the Parent Company, Active Biotech AB, were 44.1% and 45.7%, respectively.

Organization

At the end of the period, the Group had 89 employees (94), an increase of two employees since December 31, 2005. Seventy-three (71) of the Group's employees work in research and development.

Outlook

The decision to focus operations on clinical projects combined with the partnership agreements entered into previously will entail a further income improvement in 2006.

No earnings forecast has been issued for full-year 2006 as exact dates for signing additional partnership agreements and receiving milestone payments from existing agreements cannot be specified.

Active Biotech – Group

Income statement, condensed SEK M	Jan - Mar		Full-year
	2006	2005	2005
Net Sales	1.7	0.8	9.2
Administration expenses	-5.5	-7.0	-27.6
Research and development costs	-39.3	-41.8	-169.5
Other revenue	–	–	54.7
Operating profit/loss	-43.0	-48.1	-133.2
Profit/loss from participations in associated companies	0.0	-0.7	-1.1
Net financial items	-4.4	-4.6	-15.1
Profit/loss after financial items	-47.4	-53.4	-149.3
Tax	–	–	13.9
Profit/loss for the period	-47.4	-53.4	-135.4
Depreciation/amortization included in an amount of	5.0	5.2	20.1
Investment in tangible fixed assets	0.0	0.1	5.9
Earnings per share before dilution (SEK)	-1.19	-1.54	-3.70
Earnings per share after dilution (SEK)	-1.19	-1.54	-3.70
Weighed number of common shares before dilution (000s)	39 687	34 665	36 610
Weighed number of common shares after dilution (000s)	39 687	34 665	36 610
Number of shares at close of period (000s)	39 743	33 739	39 592
Number of shares at close of period, including warrants (000s)	41 073	35 069	40 922
Balance sheet, condensed SEK M	Mar 31		Dec 31
	2006	2005	2005
Tangible fixed assets	371.9	308.0	376.9
Financial assets	2.9	42.6	2.9
Total fixed assets	374.7	350.6	379.8
Current receivables	9.8	14.4	9.6
Cash and cash equivalents	138.2	152.0	178.4
Total current assets	148.0	166.4	188.1
Total assets	522.7	517.0	567.9
Shareholders' equity	134.4	50.9	176.8
Long-term liabilities	352.6	393.1	354.7
Current liabilities	35.7	73.0	36.3
Total liabilities and shareholders' equity	522.7	517.0	567.9
Changes in shareholders equity', condensed			
Opening balance	176.8	104.1	104.1
Personnel options program	0.8	0.4	2.4
New share issue	–	–	164.2
Convertible issue	4.1	–	6.1
Revaluation reserve	–	–	35.8
Translation differences	0.2	-0.3	-0.5
Net profit/loss for the period	-47.4	-53.4	-135.4
Balance at close of period	134.4	50.9	176.8

Cash-flow statement, condensed SEK M	Jan - Mar		Full-year
	2006	2005	2005
Profit/loss after financial items	-47.4	-53.4	-149.3
Adjustments for items not included in the cash flow, etc.	6.0	6.1	-31.8
Tax paid	0.0	0.0	0.0
Cash flow from operating activities before changes in working capital	-41.4	-47.2	-181.1
Changes in working capital	2.5	-16.2	-11.4
Cash flow from operating activities	-38.9	-63.5	-192.5
Net investments in fixed assets	0.0	0.0	-15.1
Cash flow from investing activities	0.0	0.0	-15.1
Convertible issue	-	-	-
New share issue	-	-	164.2
Borrowings/repayment of debt	-1.4	0.7	6.9
Cash flow from financing activities	-1.4	0.7	171.2
Cash flow for the period	-40.3	-62.8	-36.4
Cash equivalents, beginning of the period	178.4	214.8	214.8
Exchange-rate differences in cash equivalents	0.0	0.0	0.0
Cash equivalents, end of period	138.2	152.0	178.4

Key figures	Mar 31		Dec 31
	2006	2005	2005
Shareholders' equity (SEK M)	134.4	50.9	176.8
Shareholders' equity per share (SEK)	3.38	1.51	4.47
Unrestricted liquidity (SEK M)	138.2	148.1	178.4
Unrestricted liquidity/share (SEK)	3.48	4.39	4.51
Equity/assets ratio in Parent Company (%)	44.1%	24.7%	45.7%
Equity/assets ratio in Group (%)	25.7%	9.8%	31.1%
Average number of employees	89	98	92

Any errors in additions are attributable to rounding of figures.

Accounting and valuation principles

Effective January 1, 2005, the consolidated accounts are prepared in accordance with International Financial Reporting Standards (IFRS). The company's interim report for the period January to March 2006 was prepared in accordance with the IFRS standards adopted by the EU and the interpretations of the applicable IFRIC standards also adopted by the EU. The interim report was prepared in accordance with IAS 34 Interim Financial Reporting. Information regarding the accounting principles applied to this interim report is presented in the Active Biotech's 2005 Annual Report. The same accounting principles were applied to this interim report as were applied in 2005.

Effective January 1, 2005, the Parent Company applies RR32 Reporting for Legal Entities. In principle, RR32 entails the application of IFRS but with certain exceptions.

Legal disclaimer

This financial report includes statements that are forward-looking and actual results may differ materially from those anticipated. In addition to the factors discussed, other factors that can affect results are developments within research programs, including clinical trials, the impact of competing research programs, the effect of economic conditions, the effectiveness of the company's intellectual patent protection and obstacles due to technological development, exchange-rate and interest-rate fluctuations, and political risks.

Financial calendar 2006

Interim report, January–June 2006: August 10

Interim report, January–September 2006: November 2

Year-end report, 2006: February 15, 2007

The reports will be available from this date at www.activebiotech.com.

Lund, May 11, 2006

Active Biotech AB

Sven Andréasson

President and CEO

This report has not been reviewed by the company's auditors.

*Active Biotech AB is a biotechnology company focusing on research and development of pharmaceuticals. Active Biotech has a strong R&D portfolio with pipeline products focused on autoimmune/inflammatory diseases and cancer. Most advanced projects are **laquinimod**, an orally administered small molecule with unique immunomodulatory properties for the treatment of multiple sclerosis, as well as **ANYARA** for use in cancer immunotherapy with the primary indication non-small cell lung cancer. Further key projects in clinical development comprise the three orally administered compounds **TASQ** for prostate cancer **57-57** for SLE and **RhuDex®** for RA.*

Active Biotech AB (corp. reg. no. 556223-9227)

Box 724, SE-220 07 Lund

Tel: +46 (0) 46-19 20 00

Fax: +46 (0) 46-19 20 50



www.activebiotech.com