

**Active Biotech
Interim Report
January – June 2007**

- **Laquinimod: Phase III trials initiated**
- **ANYARA: orphan drug status granted by EMEA**
- **TASQ: Phase I study concluded**
- **57-57: new positive preclinical results presented**
- **I-3D: new positive preclinical results presented**
- **RhuDex[®]: clinical Phase IIa study proceeding according to plan**
- **Net sales SEK 5.8 M (11.4)**
- **Operating loss SEK 108.5 M (loss: 79.3)**
- **Loss after tax SEK 112.1 M (loss: 83.4)**
- **Loss per share for the period amounted to SEK 2.46 (loss: 2.10)**

Comments from President and CEO Sven Andréasson:

“All of our research projects continue to develop positively. Teva initiates clinical Phase III trials of our unique MS project laquinimod. In addition, we were recently granted orphan drug status for our renal cancer project ANYARA. Activities related to the extensive clinical program are ongoing and we expect to be able to present additional important scientific and commercial advances for our projects during the year.”

For further information, please contact:

Sven Andréasson
President and CEO
Tel: +46 (0)46-19 20 49

Cecilia Hofvander
Manager Corporate Communications
Tel: +46 (0)46-19 11 22

Active Biotech AB (Corp. Reg. No. 556223-9227)
PO Box 724
SE-220 07 Lund
Sweden
Tel: +46 (0)46-19 20 00
Fax +46 (0)46-19 20 50

This report is also available at www.activebiotech.com

Operations

Pivotal Phase III trials initiated for laquinimod

At the beginning of June, Active Biotech and Teva Pharmaceutical Industries Ltd announced the initiation of clinical Phase III studies of the immunomodulatory compound laquinimod, an orally administered treatment (one tablet once a day) of relapsing multiple sclerosis (RMS). The studies were initiated following the successful conclusion of a second Phase II study and the outcome of discussions with the US Food and Drug Administration (FDA) and its European counterpart the EMEA.

Active Biotech and Teva will commence two global, pivotal Phase III trials of laquinimod at clinics in the US, Europe, and other locations worldwide, to further confirm the results of the Phase II trials.

Complete results from a 36-week, randomized, double-blind, placebo-controlled Phase IIb trial concluded earlier, evaluating the effect of oral daily 0.3 and 0.6 mg doses of laquinimod on magnetic resonance imaging (MRI) -monitored disease activity in patients with RRMS, were recently presented at the American Academy of Neurology (AAN) Annual Meeting in Boston in May 2007. Data from the trial demonstrated that an oral 0.6 mg dose of laquinimod given daily significantly reduced MRI disease activity by 38% in RRMS patients, compared with placebo. In addition, there was a favorable trend towards reducing annual relapse rates, increasing the number of relapse-free patients and time to first relapse. Treatment with both 0.3 and 0.6 mg doses of laquinimod were well tolerated with only transient and dose-dependent increases in liver enzymes.

To date, approximately 460 MS patients have received treatment with laquinimod in various clinical trials in recent years. Data from the concluded studies, in combination with preclinical documentation, confirm laquinimod's efficacy and its favorable safety profile in MS patients.

Information regarding the Phase III trials can be found on www.clinicaltrials.gov.

Laquinimod is a novel oral agent for the treatment of multiple sclerosis (MS). 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 vary 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 adults, and more women than men; the average age of onset of the disease is about 30. Given that MS patients must take drugs for decades, an oral treatment (one tablet once a day) represents a significant advantage over the products currently on the market, all of which must be injected. The total market for MS pharmaceuticals amounts to USD 6 billion and is growing by double digit percentage figures each year (Source: Cowen & Co).

ANYARA granted orphan drug status in Europe

ANYARA, for the treatment of renal cancer patients, was granted orphan drug status by the European Medicines Agency's (EMA) expert committee, COMP (Committee for Orphan Medicinal Products). The EMA's decision to grant orphan drug status is an important step in the development of ANYARA and involves such elements as market exclusivity for up to ten years following registration approval. It also entails a simplified process when compiling the registration application.

Just prior to year-end 2006, a Phase II/III study of ANYARA in combination with interferon-alpha, compared with only interferon-alpha, was initiated in patients with advanced renal cancer. The study is proceeding according to plan.

The primary clinical effect parameter for this study is survival and it will include approximately 500 patients at 45 clinics in Europe. Expected survival with conventional treatments for these patients is 10-15 months and the length of the study will depend on the patients' disease progression. An interim analysis based on approximately 200 patients is scheduled for mid-2008.

Renal cancer affects approximately 40,000 people annually in the US and 200,000 people worldwide. The usual age of onset of the disease is between 50 and 70, and it affects more men than women. Five-year survival for non-metastatic forms of the disease is approximately 64%. If the disease has metastasized to the lymphatic glands, five-year survival declines to 5–15%. The market for treatment of renal cancer is estimated at about USD 1 billion annually (Cowen & Co.).

Clinical Phase I trial for TASQ prostate cancer project concluded

In March 2007, new positive clinical data from the ongoing Phase Ib study of TASQ for chronic tablet treatment of prostate cancer was presented.

By step-wise dose escalation, a safe dose of 1.0 mg/day of TASQ was achieved, which corresponds to a doubling of the previously reported maximum tolerated dose (MTD) level of 0.5 mg/day. This means that a step-wise dose-escalation for each patient enables a dose of 1.0 mg/day to be administered in future clinical trials.

Accordingly, Phase I of the program for the project was concluded. Sufficiently robust documentation of the compound's safety in humans now exists as a base for the next step in the development. This step involves the documentation of the substance's effect on tumor growth in a controlled Phase II study. This study will be performed in the US under an IND application (Investigational New Drug) and the US Food and Drug Administration (FDA) has already been contacted. This Phase II study is scheduled to commence during 2007.

A small number of patients in the study remain in an expanded part of the study in which the compound is administered on a daily basis for up to one year. When all information from these patients is available, the complete results will be presented. At the beginning of the study, all patients had rising serum levels of Prostate Specific Antigen (PSA), which is a surrogate marker for tumor progression. As was reported earlier, the vast majority of patients demonstrate a decrease in the rate of increase of PSA in serum following treatment with TASQ and this effect remained during at least four months of treatment.

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

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, in the US. Prostate cancer has varying degrees of severity. Despite a relatively good prognosis, prostate cancer is the second most common cause of death among men. In 2006, it is estimated that slightly more than 2.2 million cases were diagnosed in the US alone. The pharmaceutical market for prostate cancer is estimated at slightly more than USD 3 billion a year.

New positive preclinical results for the 57-57 project against SLE

Active Biotech presented preclinical results for the 57-57 project at the 8th World Congress on Inflammation (www.inflammation2007.dk) in Copenhagen held on June 16-20. For further information and to view the complete poster “Steroid Sparing Effect of Paquinimod (ABR-215757) in Disease Development of Experimental Lupus in MRLlpr/lpr Mice,” visit www.activebiotech.com.

The new pre-clinical data presented demonstrate that 57-57, in an experimental model of the disease systemic lupus erythematosus (SLE), can replace prednisolone, an anti-inflammatory corticosteroid widely used in a broad range of different inflammatory diseases, among them SLE.

A clinical Phase Ib trial for the 57-57 project with the main indication SLE and encompassing patients with SLE or rheumatoid arthritis (RA) is currently in progress. This is a multi-center study and is being conducted at three hospitals in Sweden – the Karolinska University Hospital in Stockholm, Uppsala University Hospital and Lund University Hospital, in addition to a number of clinics in Russia. The study’s format is a so-called dose-escalation study, whereby the compound’s safety is studied in connection with step-wise dose increases. In addition, diverse efficacy parameters will be studied in the form of so-called surrogate markers for disease activity. The study has included a larger number of patients than was initially planned, which means that it will be concluded at a later date than announced earlier. It is now estimated that clinical Phase II studies will commence during the first six months of 2008.

SLE 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 with relatively symptom-free periods, primarily affects women of child-bearing age. Progress and symptoms of the disease vary widely, depending on the organs affected. Without treatment, SLE can be life-threatening. Current treatment comprises anti-inflammatory drugs, so-called COX inhibitors (which are also called NSAID), anti-malaria drugs, cortisone, cell-inhibiting or anticoagulant drugs. Active Biotech estimates the market at not less than 1 million patients in the US and Europe. The market potential for the SLE indication is estimated at approximately USD 6 billion.

Clinical Phase IIa trial for RhuDex[®] proceeding according to plan

RhuDex[®] is a novel, orally available substance for the treatment of rheumatoid arthritis, originating from Active Biotech’s patented CD80 antagonists, out-licensed to MediGene AG.

Clinical Phase IIa trials for the RhuDex[®] candidate drug for the treatment of rheumatoid arthritis have been ongoing since January 2007. RhuDex[®] is being developed for the treatment of rheumatoid arthritis (RA). The purpose of this placebo-controlled study is to evaluate the compound’s tolerability, to determine the appropriate dosage, and analyze the anti-inflammatory effect of RhuDex[®]. The first patient has commenced treatment and results from the study are expected at the end of 2007.

Upon completion of this trial, an additional Phase II trial with more than 200 patients is scheduled for 2008. MediGene is responsible for the clinical program and carries the related costs.

For Active Biotech, the agreement with MediGene entailed initial payments, which were received in 2002 and 2005. Possible future milestone revenues related to the forthcoming clinical program up to product launch amount to GBP 5.6 M. In addition, Active Biotech will receive royalties on future sales.

RA is a chronic inflammatory disease that affects the body's joints and causes inflammations in synovial membranes and tendon sheaths. The inflammation can damage articular cartilage and surrounding skeletal areas, which means that the patient can eventually be affected by a physically debilitating handicap. The risk of being affected by RA increases with age and the increasing average age in the western world will present a considerable challenge for healthcare services during the next century. Of those affected, approximately two of three are women. Generally, the disease can be found throughout the world and is equally as common on all continents. The market for drugs against RA is estimated at slightly more than USD 4 billion per year. Medical treatment consists primarily of pain-alleviating and anti-inflammatory treatment.

New positive clinical data for the I-3D RA project

Active Biotech presented new preclinical results for the I-3D project at the annual EULAR conference (The European League Against Rheumatism, www.eular.org) held on June 13-16. For further information and to view the complete poster "ABR-224050: a novel dihydroorotate dehydrogenase inhibitor suppressing disease development in collagen induced arthritis," visit www.activebiotech.com.

The new preclinical data presented show that I-3D has a significant inhibitory effect on disease progression in an experimental model for rheumatoid arthritis (RA).

An enhanced treatment effect on disease development is achieved when I-3D is combined with methotrexate, an anti-proliferative drug widely used for the treatment of various inflammatory disorders and cancer.

The results strengthen the clinical development of I-3D as monotherapy or in combination with methotrexate.

A candidate drug is planned to be selected this year for further clinical trials in 2008.

The I-3D compound is a novel small-molecule inhibitor of human dihydroorotate dehydrogenase (DHODH). Inflammatory diseases such as RA involve rapidly proliferating T cells with an exceptional requirement for de novo pyrimidine biosynthesis. DHODH inhibition results in inhibition of de novo pyrimidine synthesis and thereby inhibition of T-cell proliferation. In May 2006, Active Biotech and Chelsea Therapeutics signed an agreement for the co-development and commercialization of the I-3D portfolio primarily for the treatment of rheumatoid arthritis RA. Under the agreement, Active Biotech and Chelsea will jointly conduct and fund the clinical development of the I-3D portfolio.

Financial information

Comment on the Group's results for the first six months of 2007

Consolidated net sales for the period January – June amounted to SEK 5.8 M (11.4) and included service and rental revenues. Net sales in the preceding year included SEK 7.2 M from Chelsea Therapeutics relating to the joint development of the I-3D project.

The operation's research and administration expenses totaled SEK 114.3 M (90.7). The increase in expenses is mainly attributable to intensified clinical activity and more extensive trials in later clinical phases, including the ongoing Phase II/III study for the ANYARA project, which commenced at year-end 2006, the 57-57 project in the final stage of Phase I and the TASQ project that is expected to commence Phase II studies during 2007. In addition to these clinical development programs, Active Biotech, in conjunction with Chelsea Therapeutics, pursued the development of the I-3D preclinical project for the treatment of RA.

Costs for Phase II studies with RhuDex[®] for the treatment of RA and clinical Phase III studies with laquinimod, which are currently being initiated, are financed by the relevant partner.

The Group's operating loss amounted to SEK 108.5 M (loss: 79.3).

Net financial expense for the period totaled SEK 3.6 M (expense: 8.9). The improvement in net financial expense is mainly attributable to increased interest income and the early redemption of the outstanding convertible debenture during the second quarter. Loss after tax amounted to SEK 112.1 M (loss: 83.4).

Liquidity and financial position

At the end of the period, cash and short-term investments with a duration of not more than 90 days amounted to SEK 127.2 M (130.8). In addition, SEK 98.8 M was invested with a duration exceeding 90 days.

The consolidated cash flow for the period amounted to SEK 29.3 M (neg: 47.6). The difference between the years is primarily attributable to the implementation of the preferential rights issue during the period.

Cash flow from operating activities amounted to a negative SEK 102.0 M (neg: 69.9).

Cash flow from financing activities amounted to SEK 229.8 M (neg: 2.7). The period includes the proceeds from the implemented preferential rights issue totaling SEK 234.4 M.

The Group's cash and cash equivalents and short-term investments totaled SEK 226.0 M at the end of the period, compared with SEK 97.9 M at year-end 2006.

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 3.4 M (1.8).

Operating expenses during the period totaled SEK 16.7 M (14.7). Net financial income for the period amounted to SEK 1.0 M (expense: 5.2). Loss after financial items amounted to SEK 12.3 M (loss: 18.1).

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

Cash and cash equivalents, including short-term investments, amounted to SEK 208.4 M at the end of the period, compared with SEK 88.2 M on January 1, 2007.

Share capital

Consolidated shareholders' equity at the end of the period amounted to SEK 283.5 M, compared with SEK 60.4 M at year-end 2006. The trend is due to the share issue conducted during the period, which generated SEK 234.4 M after transaction costs, and the conversion of the convertible debenture 2004/2009, which generated SEK 98.6 M.

A total of 47,300,115 shares were outstanding at the end of the period, representing an increase of 7,504,694 shares following the implementation of the preferential rights issue and the conversion of convertible debentures since year-end 2006. With the possible redemption of share warrants outstanding, the number of shares would increase to a maximum of 48.6 million shares.

At the end of the period, the equity/assets ratio for the Group was 48.3%, compared with 13.1% at year-end 2006. The corresponding figures for the Parent Company, Active Biotech AB, were 75.9% and 42.7%, respectively

Organization

The average number of employees at the end of the period amounted to 89 employees (89), of which the number of employees in the research and development operation amounted to 73 (72).

Outlook, including significant risks and uncertainties

No earnings forecast has been issued for full-year 2007 as exact dates for signing additional partnership agreements and receiving milestone payments from existing agreements cannot be specified.

A research company such as Active Biotech is characterized by a high operational and financial risk, since 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. In brief, the operation is associated with risks related to such factors as pharmaceutical development, competition, advances in technology, patents, official requirements, capital requirements, currencies and interest rates.

Since no significant changes took place with regard to risks and uncertainties during this period, refer to a detailed account of these in the directors' report in the 2006 annual report.

Active Biotech – Group

Income statement, condensed SEK M	April - June		Jan - June		Full-year 2006
	2007	2006	2007	2006	
Net sales	3.3	9.7	5.8	11.4	66.4
Administration expenses	-7.3	-7.1	-12.9	-12.6	-25.2
Research and development costs	-52.0	-38.8	-101.4	-78.1	-165.7
Operating loss	-56.0	-36.3	-108.5	-79.3	-124.6
Net financial items	-0.3	-4.5	-3.6	-8.9	-17.3
Loss after financial items	-56.3	-40.8	-112.1	-88.2	-141.8
Tax	–	4.8	–	4.8	2.6
Loss for the year	-56.3	-36.0	-112.1	-83.4	-139.2
Attributable to:					
Parent Company's shareholders	-56.3	-36.0	-112.1	-83.4	-139.2
Minority interests	–	–	–	–	–
Depreciation/amortization included in an amount of	4.8	3.5	9.6	8.6	20.0
Investment in tangible fixed assets	–	–	–	–	0.0
Earnings per share before dilution (SEK)	-1.19	-0.90	-2.46	-2.10	-3.50
Earnings per share after dilution (SEK)	-1.19	-0.90	-2.46	-2.10	-3.50
Weighted number of common shares before dilution (000s)	47,300	39,759	45,539	39,724	39,755
Weighted number of common shares after dilution (000s)	47,300	39,759	45,539	39,724	39,755
Number of shares at close of period (000s)	47,300	39,772	47,300	39,772	39,795
Number of shares at close of period, including warrants (000s)	48,630	41,102	48,630	41,102	41,125

Balance sheet, condensed	June 30		Dec 31
SEK M	2007	2006	2006
Tangible fixed assets	338.8	358.2	347.7
Financial assets	2.5	2.9	2.8
Total fixed assets	341.3	361.1	350.5
Current receivables	19.2	9.1	14.0
Short-term investments	98.8	–	–
Cash and cash equivalents	127.2	130.8	97.9
Total current assets	245.2	139.9	111.9
Total assets	586.5	501.0	462.4
Shareholders' equity	283.5	112.8	60.4
Long-term liabilities	252.9	354.0	254.9
Current liabilities	50.0	34.3	147.2
Total shareholders' equity and liabilities	586.5	501.0	462.4
Changes in shareholders' equity, condensed			
Opening balance	60.4	176.8	176.8
Personnel options program	2.4	1.7	4.3
New share issue	234.4	–	–
Convertible issue	98.6	4.9	5.6
Revaluation of property	–	17.3	15.4
Tax attributable to items reported directly against equity	–	-4.8	-2.7
Translation differences	-0.2	0.3	0.1
Net loss for the period	-112.1	-83.4	-139.2
Balance at close of period	283.5	112.8	60.4
Cash-flow statement, condensed			
SEK M	Jan - June		Full year
	2007	2006	2006
Loss after financial items	-112.1	-88.2	-141.8
Adjustments for items not included in the cash flow, etc.	11.8	13.2	24.6
Tax paid	–	–	–
Cash flow from operating activities before changes in working capital	-100.3	-75.0	-117.2
Changes in working capital	-1.7	5.1	17.1
Cash flow from operating activities	-102.0	-69.9	-100.1
Investments in tangible fixed assets	0.3	25.0	25.0
Investments in financial assets	-98.8	–	–
Cash flow from investing activities	-98.5	25.0	25.0
New share issue	234.4	–	–
Borrowings/repayment of debt	-4.6	-2.7	-5.4
Cash flow from financing activities	229.8	-2.7	-5.4
Cash flow for the period	29.3	-47.6	-80.5
Cash and cash equivalents, beginning of the period	97.9	178.4	178.4
Exchange-rate differences in cash and cash equivalents	0.0	0.0	0.0
Cash and cash equivalents, end of the period	127.2	130.8	97.9
Key figures			
	2007	2006	2006
Shareholders' equity (SEK M)	283.5	112.8	60.4
Shareholders' equity per share (SEK)	5.99	2.84	1.52
Equity/assets ratio in Parent Company (%)	75.9%	36.8%	42.7%
Equity/assets ratio in Group (%)	48.3%	22.5%	13.1%
Average number of employees	89	89	89

Active Biotech – Parent Company

Income statement, condensed SEK M	April - June		Jan - June		Full-year 2006
	2007	2006	2007	2006	
Net sales	1.7	0.9	3.4	1.8	54.7
Administration expenses	-8.6	-8.2	-16.7	-14.7	-32.4
Operating loss	-6.9	-7.3	-13.3	-12.9	22.3
<i>Profit/loss from financial items:</i>					
Profit from shares in subsidiaries	–	–	–	–	37.0
Interest income and similar items	2.1	0.5	3.4	1.0	2.0
Interest expense and similar items	0.0	-3.2	-2.4	-6.2	-11.9
Profit/loss after financial items	-4.8	-10.1	-12.3	-18.1	49.3
Tax	–	–	–	–	–
Net profit/loss for the year	-4.8	-10.1	-12.3	-18.1	49.3
Balance sheet, condensed					
SEK M			June 30 2007	2006	Dec 31 2006
Tangible fixed assets			0.4	0.4	0.4
Financial assets			231.9	231.8	232.2
Total fixed assets			232.2	232.2	232.6
Current receivables			75.0	181.7	72.9
Short-term investments			173.6	–	–
Cash and bank balances			34.8	98.0	88.2
Total current assets			283.5	279.8	161.1
Total assets			515.7	512.0	393.7
Shareholders' equity			391.4	188.5	168.2
Long-term liabilities			–	94.7	–
Current liabilities			124.3	228.8	225.5
Total shareholders' equity and liabilities			515.7	512.0	393.7

Any errors in additions are attributable to rounding of figures.

Accounting and valuation principles

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

As of January 1, 2005, the Parent Company has applied RR 32, Reporting for Legal Entities. RR 32 essentially 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, obstacles due to technological development, exchange-rate and interest-rate fluctuations, and political risks.

Financial calendar 2007

Interim report, January–September 2007: November 8, 2007

Year-end report, 2007: February 14, 2008

The reports will be available from these dates at www.activebiotech.com.

The Board and the President hereby give their assurance that this interim report for the period January 1, 2007 – June 30, 2007 provides a true and fair overview of the Parent Company's and the Group's operations, position and earnings, and describes key risks and uncertainty factors facing the Parent Company and the companies that are part of the Group.

Lund, August 9, 2007

Mats Arnhöjg
Chairman of the Board

Klas Kärre
Board member

Peter Sjöstrand
Board member

Peter Ström
Board member

Magnhild Sandberg-Wollheim
Board member

Hans Wännman
*Employee representative/
Board member*

Kerstin Andersson
*Employee representative/
Board member*

Sven Andréasson
President and CEO

This interim report has not been audited 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 focused on autoimmune/inflammatory diseases and cancer. Its most advanced projects are **laquinimod**, an orally administered small molecule with unique immunomodulatory properties for the treatment of multiple sclerosis, and **ANYARA**, for use in cancer targeted therapy, primarily renal 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. In addition, the **I-3D** project in preclinical development is being carried out jointly with Chelsea Therapeutics.*

Active Biotech AB (Corp. Reg. No. 556223-9227)
PO Box 724
SE-220 07 Lund
Sweden
Tel. +46 (0)46-19 20 00
Fax +46 (0)46-19 20 50



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