Active Biotech

2019

ANNUAL REPORT 2019 | ACTIVE BIOTECH AB

Diseases in which the immune system is of crucial importance

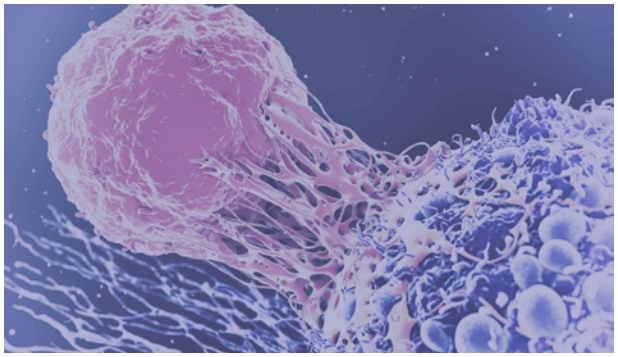
This Annual Report contains certain forward-looking information on Active Biotech. Although we believe that our expectations are based on reasonable assumptions, forward-looking statements could be affected by factors causing the actual outcome and trend to differ materially from the forecast. The forward-looking statements comprise various risks and uncertainties. There are significant factors that could cause the actual outcome to differ 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.

Contents

ACTIVE BIOTECH IN BRIEF

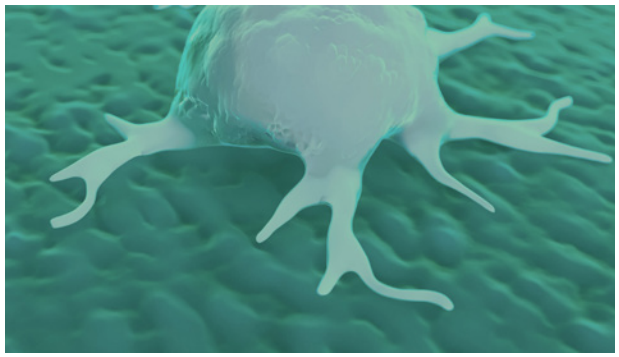
Active Biotech develops novel pharmaceuticals in the areas of cancer and autoimmune/inflammatory diseases in which the immune system is of central importance. Our project portfolio contains both small, orally administered immunomodulatory molecules and antibody based immunotherapy.

Active Biotech has its base in Lund and was formed in 1998 as a spin-off from Pharmacia. The share is listed and traded on Nasdaq Stockholm (Small Cap).



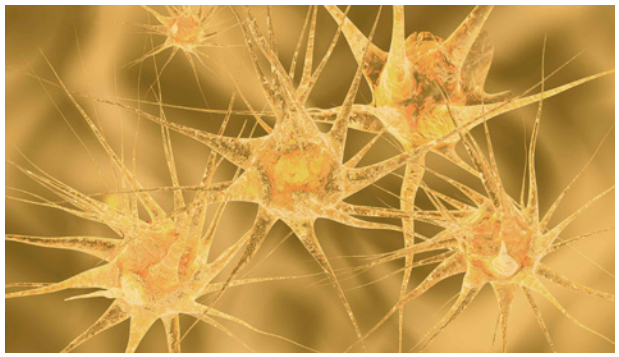
NAPTUMOMAB ESTAFENATOX

Naptumomab Estafenatox, "naptumomab", is a tumor targeting immunotherapy that enhances the ability of the immune system to recognize and kill tumors. Naptumomab is developed in cooperation with NeoTX for the treatment of solid cancer forms. The project is currently at clinical Phase Ib/II.



TASQUINIMOD

Tasquinimod is a once-daily, oral immunomodulatory compound that reduces a tumor's ability to grow and spread. Preparations are ongoing for a Phase Ib/IIa study for the treatment of multiple myeloma. The project is in an academic partnership with The Perelman School of Medicine, University of Pennsylvania.



LAQUINIMOD

Laquinimod is a once-daily, immunomodulatory compound. Preclinical activities are continuing to increase our understanding of the therapeutic potential of laquinimod in the eye diseases Wet AMD and uveitis. Laquinimod is also being investigated for the treatment of Crohn's disease following a prior clinical Phase IIa study that provided compelling data.

FINANCIAL CALENDAR

2020
23
April
Interim Report

2020
19
May
Annual General Meeting

2020
6
August
Interim Report

2020
5
November
Interim Report

2021
11
February
Year-end report

ANNUAL GENERAL MEETING

The Annual General Meeting of Active Biotech AB (publ) is to be held on Tuesday, May 19, 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 Wednesday, May 13, 2020, and (b) notify the company of their intention to participate in the Meeting not later than Wednesday, May 13.

Shareholders who have trustee-registered shares must temporarily re-register the shares in their own name to be entitled to participate in the Meeting. Such registration, which may be temporary, must be completed not later than Wednesday, May 13, 2020. 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 shall include name, personal/corporate registration number, number of shares held, daytime telephone number and, if applicable, the number of advisors (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.

2019 IN BRIEF

FEBRUARY 1
Active Biotech received an indicative, non-binding bid for the company's property amounting to SEK 275 M.

FEBRUARY 11
Active Biotech's partner NeoTX entered collaboration with AstraZeneca to evaluate naptumomab in combination with IMFINZI® (durvalumab) in the upcoming Phase Ib/II study.

MARCH 13
Active Biotech entered into an agreement regarding the sale of the company's property. The purchase price amounted to SEK 275 M and an Extraordinary General Meeting was convened on April 4.

APRIL 4-5
The General Meeting voted to approve the sale of the Company's property Forskaren 1 in Lund. On April 5, the sale was completed of the property, Forskaren 1, to Estea AB.

APRIL 26
Active Biotech published its Annual Report for fiscal year 2018.

MAY 6
The Phase II study LEGATO-HD of laquinimod in Huntington's disease was presented at the "American Academy of Neurology (AAN)" scientific conference in Philadelphia.

MAY 23
The AGM resolved to appoint Michael Shalmi as new Chairman of the Board and Uli Hacksell as new ordinary member.

SEPTEMBER 23
New data was presented from the Phase II LEGATO-HD study relating to laquinimod in Huntington's disease at the International congress of Parkinson's disease and Movement disorders.

OCTOBER 28
Active Biotech and NeoTX announced the dosing of the first patient in the Phase Ib trial of naptumomab in combination with durvalumab in solid tumors.

NOVEMBER 8
Partner NeoTX presented new preclinical data on the drug candidate naptumomab at the scientific conference at the Society for Immunotherapy of Cancer's (SITC) 34th Annual Meeting in National Harbor, Maryland, USA.

KEY FIGURES

Net sales	Operating loss	Loss for the year	Earnings per share	Equity/assets ratio
8.4	**-32.3**	**-34.1**	**-0.24**	**80**
SEK M	SEK M	SEK M	SEK/share	%
(2018: 20.1)	(2018: -29.8)	(2018: -36.9)	(2018: -0.27)	(2018: 29)

We have a clear direction for development moving forward

Helén Tuvesson
Chief Executive Officer

COMMENTS FROM THE CEO

An intensive year and in many ways rewarding. We are now in the position we were aiming for, which feels highly positive. I am proud that the efforts we have made produced the expected result.

For some time, we have endeavored to sell the property that Active Biotech has owned. In spring 2019, this transaction was finalized and the property was sold to an investment collective led by Estea AB. We are now tenants of Estea which we enjoy. Finalizing the sale allows us to fully focus on our core business, which will give us a favorable position for the future.

REORGANIZATION OF OPERATIONS

During the spring, we also established a new Board of Directors with a new Chairman. This was followed by a thorough analysis of commercial opportunities and an evaluation of the project portfolio, carried out in close cooperation with external advisors. This work resulted in clearly defined corporate priorities and new disease indications in the project portfolio. Our new direction was communicated in the first quarter of 2020 and was well received.

Following the changes, our project portfolio now comprises five projects; naptumomab for the treatment of solid tumors, tasquinimod for the treatment of multiple myeloma and laquinimod for the treatment of two eye disorders Wet AMD and uveitis as well as the inflammatory bowels disease, Crohn's disease. Active Biotech's

clear strategy is to pursue projects in indications where there are medical needs and options for differentiation, a clear direction for future development, opportunities to build on previously established clinical safety and where there are relevant patents or other IP. In addition, we are to achieve significant value within a reasonable timeframe and the market for the indication must be substantial. The projects in our portfolio meet these requirements.

DOSING OF THE FIRST PATIENT

In October, we were pleased to announce that our partner NeoTX, in cooperation with AstraZeneca, had dosed the first patient with naptumomab in combination with durvalumab in the clinical Phase Ib/II study in patients with advanced solid tumors. We expect the first part of the study to be completed late this year.

ACADEMIC PARTNERSHIP

In the tasquinimod project, we entered into an academic partnership with the Perelman School of Medicine, University of Pennsylvania. Tasquinimod will be advanced as an immunomodulatory product with a novel mechanism of action in multiple myeloma. This is the result of extensive preclinical studies over the past two years in cooperation with the Wistar Institute in Philadelphia. The goal is that the first patient will be treated with tasquinimod during the third quarter of 2020. This program received funding from the Leukemia & Lymphoma Society in the US.

NEW INDICATIONS

Work has advanced in relation to laquinimod. We have evaluated and analyzed data together with a broad network of international expert advisors and have decided to develop laquinimod for new indications.

During the year, we will focus on preclinical studies of laquinimod for the treatment of the two eye disorders, Wet AMD and uveitis. The aim of the studies is to determine the best method of using laquinimod as a topical agent and to understand the therapeutic potential of the drug.

> *We are at the clinical phase with both naptumomab and tasquinimod, which is very exciting*

We are at the same time advancing with laquinimod as an oral treatment of the inflammatory bowels disease, Crohn's disease. During the year, we have evaluated an earlier clinical Phase IIa study, which produced convincing data for laquinimod as an immunomodulatory compound in this disease. As part of work this year, we are planning to reopen discussions with authorities in Europe and the US and to find partners and investors for the program.

GOAL FULFILLMENT AND FINANCIAL SITUATION

The financial situation remains stable. For some years, we have worked in a small and efficient organization with good control over costs. We received a capital contribution of approximately SEK 70 M when the property was sold last spring, and I feel confident that we can continue to run the business until we have fulfilled the goals we establish for 2021.

I am pleased to say that we achieved our targets for 2019. The property was sold, the clinical study with naptumomab is ongoing and we have also streamlined our operations and drawn up a new direction for the company.

IMPACT OF COVID-19

As I write this, we are in the midst of the COVID-19 pandemic. There is a great uncertainty about the spread of the virus and its effects and the authorities in Sweden and in most other countries have imposed restrictions on events, travel and business activities. Active Biotech's priority in the current situation is to ensure the well-being and safety of our employees, patients and partners. Therefore, we take the necessary precautions and we will continue to monitor the spread of the virus and subsequent actions carefully.

We, together with business partners, have ongoing clinical trials and clinical trials planned to start. Global measures against COVID-19 and the need to prioritize health care resources are likely to affect the timelines of these studies. This means that the timing of the initial results of the ongoing clinical study with naptumomab in patients with solid tumors and the start-up of the planned study with tasquinimod in multiple myeloma may be affected. We will provide updates as needed.

I am now looking forward to 2020. All targets for the year are focused on our core business: to continue the clinical development of naptumomab and tasquinimod as well as the preclinical studies of laquinimod to position laquinimod as a potential treatment of serious eye disorders and to follow up previous regulatory and clinical plans with laquinimod in Crohn's disease.

I would like to thank all employees for their excellent work and shareholders for following Active Biotech with such commitment during the year.

Helén Tuvesson, CEO

BUSINESS CONCEPT, OBJECTIVES AND BUSINESS STRATEGY

In 2019, Active Biotech evaluated and revised the company's business concept and strategies. The updated business concept has a high level of acceptance among employees. The goal is to improve treatment alternatives for patients with cancer and autoimmune/inflammatory diseases and this goal leads the company's daily work.

The overall objective for Active Biotech's operation is to develop new pharmaceuticals in which the immune system plays a central role, including cancer and autoimmune/inflammatory diseases, and thereby contribute to an improved treatment. The combination of experience, expertise, knowledge and the right strategic choice forms the basis for achieving our objectives.

BUSINESS CONCEPT

Active Biotech's business concept is to use knowledge of the immune system to develop pharmaceuticals in therapy areas where an unmet medical need can be satisfied to create attractive returns for shareholders.

Knowledge of the immune system

BUSINESS STRATEGY

Strong partners

The key components of Active Biotech's business strategy are to:

- Achieve the greatest possible growth in value in each project and seek collaboration with strong partners not later than completed clinical Phase II studies
- Progress the clinical development and commercialization of the company's selected compounds together with partners with relevant expertise
- Limit internal costs and overheads by setting up partnership agreements and through external expertise
- Protect know-how through an active patent strategy
- Create financial sustainability through partnerships with licensees and shareholders

OBJECTIVES

Active Biotech's goal is to develop new drugs aimed at improving the treatment of patients with cancer and autoimmune/inflammatory diseases.

Develop new drugs

OPERATIONS

Opportunity analysis and new projects in Active Biotech's pipeline

During autumn 2019, Active Biotech has completed a detailed evaluation of the tasquinimod and laquinimod projects from a scientific and commercial perspective to define potential value-enhancing paths forward for the company.

The analyses included updated scientific insights on the mechanism of action of the compounds, as well as an examination of how best to leverage the existing clinical and safety data. A broad network of international expert advisors were engaged in this process, to ensure adequate external challenge of ideas and directions developed.

The new indications now being advanced for tasquinimod and laquinimod represent diseases with significant unmet medical need and commercial potential where intellectual property has been secured or filed.

TASQUINIMOD IN MULTIPLE MYELOMA

Tasquinimod is being developed as a new product for the treatment of multiple myeloma in an academic partnership with The Perelman School of Medicine, University of Pennsylvania. We are planning to jointly start a clinical study in the indication during the year.

Extensive preclinical studies performed in collaboration with the Wistar Institute in Philadelphia, during the past two years, provide clear support for the advancement of tasquinimod in multiple myeloma.

LAQUINIMOD FOR EYE DISORDERS

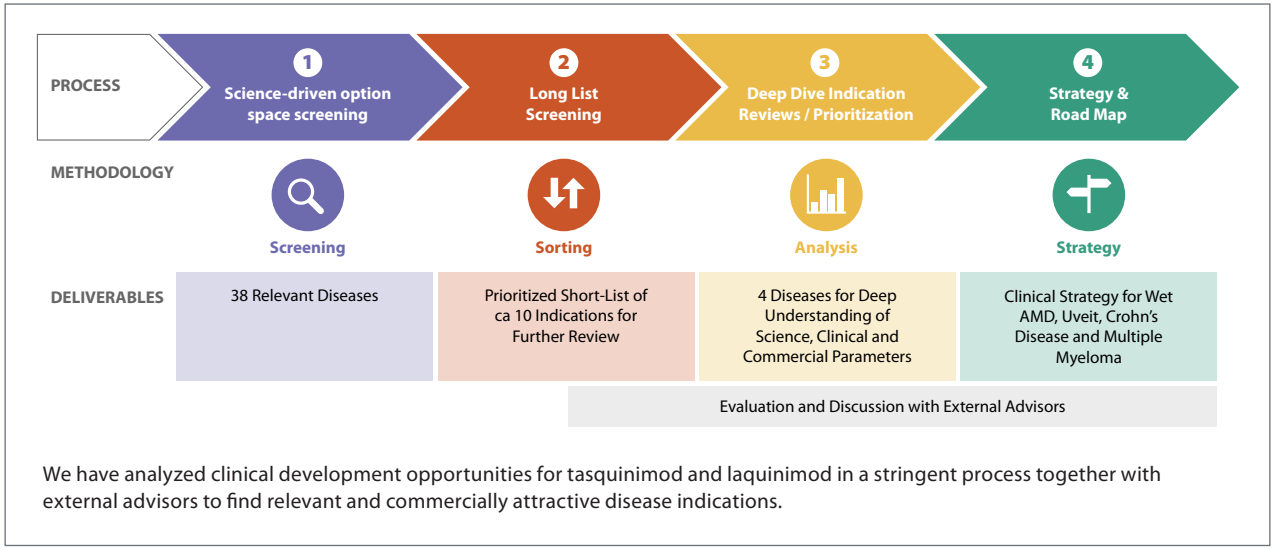
Laquinimod is being developed as a new product for the treatment of eye disorders. The evaluation of preclinical data supports the use of laquinimod for the treatment of the two eye disorders Wet AMD and uveitis.

Over the next 12 months, our focus will be on preclinical studies to increase understanding of the therapeutic potential of laquinimod, and define how best to develop laquinimod as a topical agent within these diseases.

POSSIBLE ROLE IN CROHN'S DISEASE

Active Biotech has also decided to evaluate laquinimod as an immunomodulatory compound with a novel mechanism of action for the treatment of Crohn's disease, an indication where an earlier clinical Phase IIa study provided compelling data. The review of the extensive preclinical scientific profiling of laquinimod in models of gastrointestinal disorders, further supports a potential role in Crohn's disease.

Over the next 12 months, we will update prior regulatory advice received from regulatory authorities in Europe and the US, as well as explore possible partnership modalities to advance the evaluation of laquinimod in this indication.



We have analyzed clinical development opportunities for tasquinimod and laquinimod in a stringent process together with external advisors to find relevant and commercially attractive disease indications.

FOCUS ON PRIORITIZED ACTIVITIES

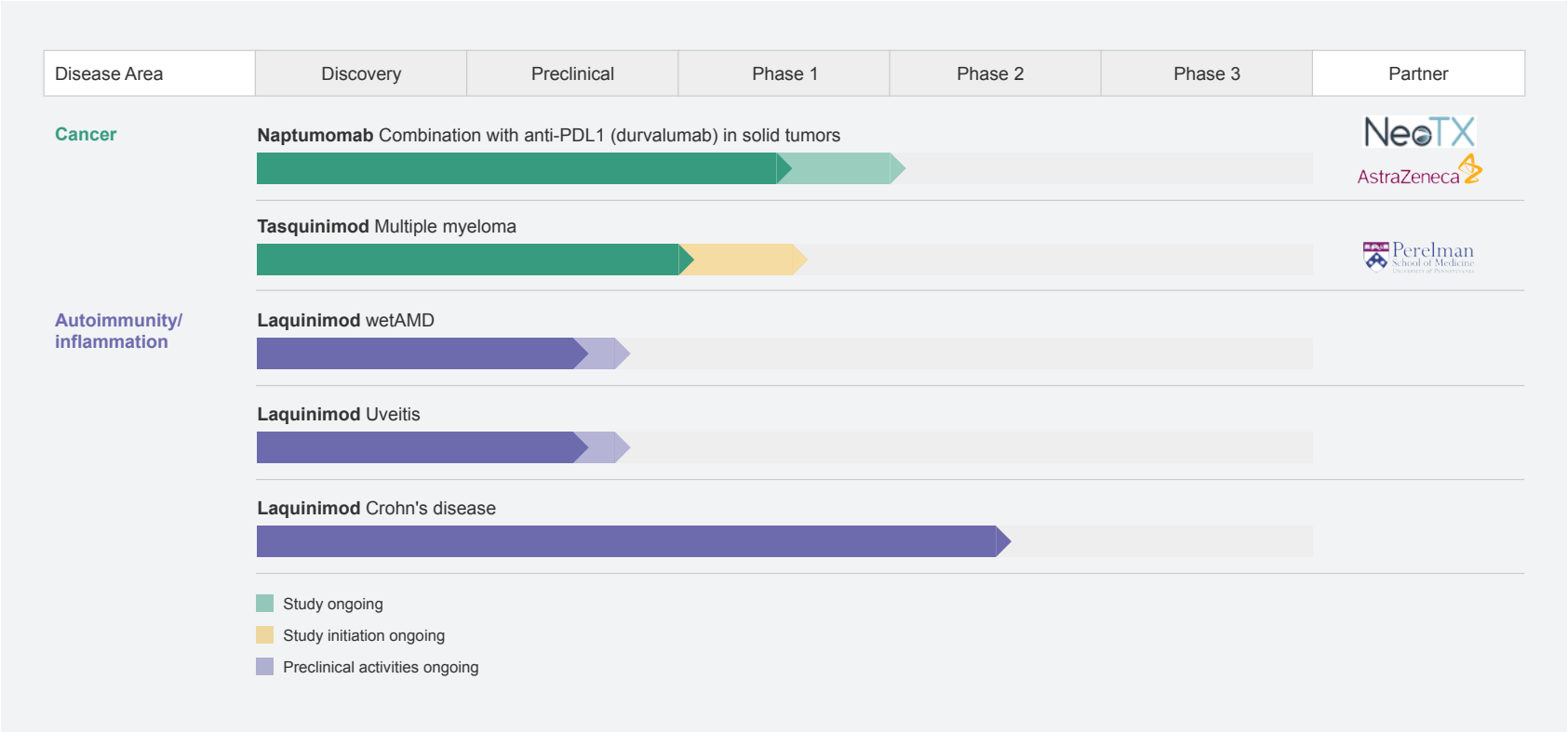
The company's new strategy aims at advancing the projects in well-defined focus areas by leveraging existing results in combination with smaller proof-of-concept or confirmatory Phase II studies to enable early and cost-effective value crystallization for Active Biotech through partnering/out-licensing.

No further work on the prior clinical programs within multiple sclerosis or Huntington's disease for laquinimod or solid tumors for tasquinimod will be undertaken. In addition, Active Biotech will for now put on hold the paquinimod and SILC projects, to create a clear focus on the prioritized activities, and no further communication in relation to these assets is expected.

Active Biotech's pipeline

Active Biotech focuses on pharmaceutical research and development in therapy areas with high medical needs. The project portfolio comprises small, orally active immunomodulatory molecules and antibody based immunotherapy.

The new project portfolio comprises disease indication opportunities with a potential high commercial value for which preclinical efficacy and safety results, in addition to comprehensive manufacturing documentation, are already available.


Disease Area
Discovery
Preclinical
Phase 1
Phase 2
Phase 3
Partner
Cancer
Naptumomab Combination with anti-PDL1 (durvalumab) in solid tumors
NeoTX
AstraZeneca
Tasquinimod Multiple myeloma
Perelman School of Medicine
Autoimmunity/ inflammation
Laquinimod wetAMD
Laquinimod Uveitis
Laquinimod Crohn's disease
Study ongoing
Study initiation ongoing
Preclinical activities ongoing

Immunotherapy – strengthening the immune system's ability to fight cancer

Cancer is a collective name for a large group of diseases characterized by the growth of abnormal cells, which can invade adjacent parts of the body or spread to other organs. Cancer is the second most common cause of death in the world. Lung, prostate, rectal, stomach and liver cancer are the most common types of cancer among men, while breast, rectal, lung, cervical and thyroid cancer are the most common types among women[1].

The immune system provides protection against diseases by attacking what is foreign to the body, such as viruses and bacteria, but cancer cells can also be perceived as foreign and be killed by the immune system. Unfortunately, this is not always sufficient because the tumor can develop mechanisms that inhibit the immune system so that the cancer cells completely avoid attack, resulting in continued tumor growth. The idea of using the immune system's capacity to fight cancer cells has existed for some time and has revolutionized cancer therapy in recent years. Immunotherapy for the treatment of cancer aims to impact immunosuppressive mechanisms to strengthen the immune system's natural ability to recognize, find and fight cancer.

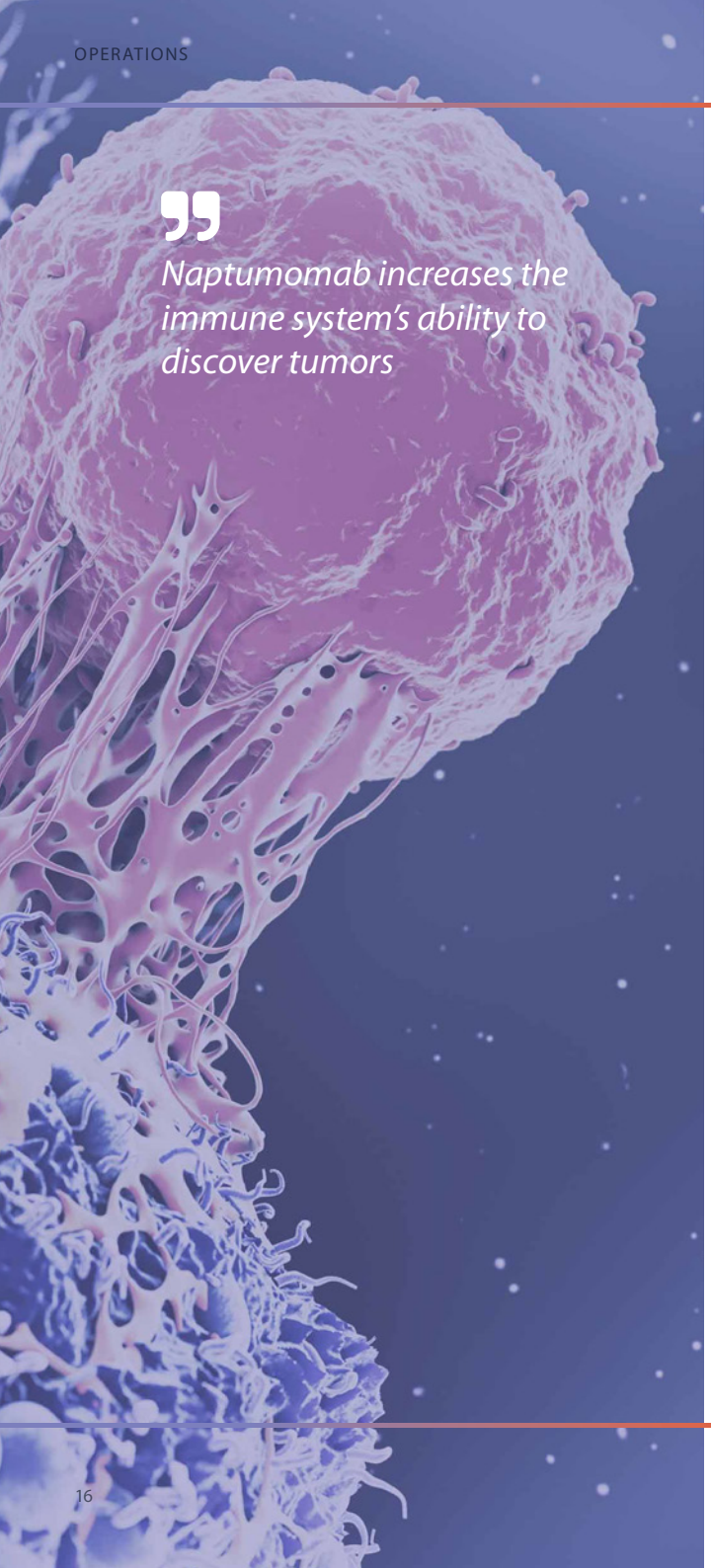
Active Biotech is now conducting two immunotherapy projects, naptumomab and tasquinimod, that utilize various mechanisms to strengthen the cancer patient's immune system so that it can attack and kill the tumor cells.

Naptumomab is an antibody-based therapy that employs a direct effect to stimulate immune cells and helps them to recognize the tumor. Naptumomab is developed in cooperation with NeoTX for the treatment of solid cancer forms. The project is currently at clinical Phase Ib/II.

[1)] www.who.int/cancer

Naptumomab, which in a unique manner utilizes the body's natural antibacterial immune response to selectively redirect T cells to trigger tumor killing, could potentially be applied to a variety of solid tumor indications and in combination with other immunotherapies. We look forward to the clinical development of naptumomab and offering new alternatives to patients suffering from advanced cancer.

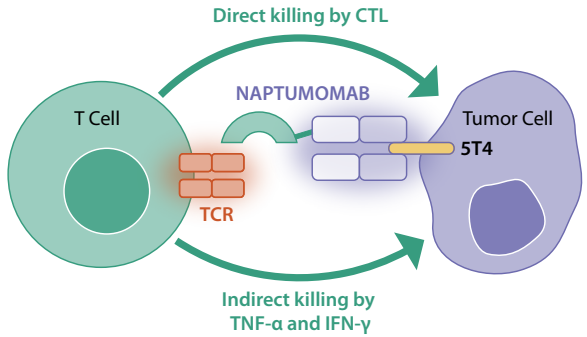
Asher Nathan
CEO and co-founder of NeoTX



Naptumomab increases the immune system's ability to discover tumors

Naptumomab Estafenatox (naptumomab)

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



Naptumomab is a protein drug, a so-called Tumor Targeting Superantigen (TTS).[1] Naptumomab comprises the Fab-fragment of an antibody that targets the tumor-associated 5T4 antigen, expressed in a high number of different types of solid tumors. The antibody component is fused with a bacterial superantigen that binds to and activates cancer-killing T-cells in the immune system.

In short, naptumomab functions by activating T lymphocytes in the body's immune system and targets them to the 5T4-expressing tumors. This results in massive effector lymphocyte infiltration into the tumor and tumor cell killing.

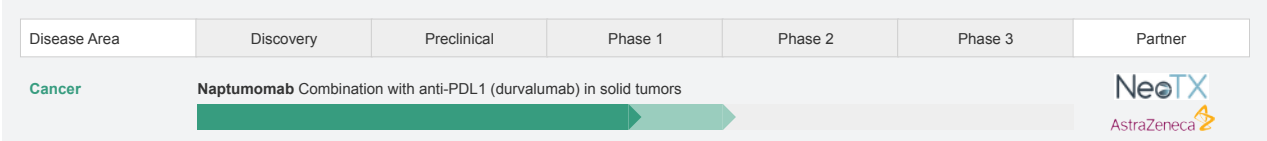
NAPTUMOMAB INCREASES THE IMMUNE SYSTEM'S ABILITY TO DISCOVER TUMORS

Checkpoint inhibitors are a new group of tumor therapies that work by boosting the patient's immune response to the tumor. Despite the successes of recent years with these immunotherapies, it remains a challenge for the immune system to recognize tumor cells. The latest clinical results indicate a need to improve the immune system's ability to discover tumors and thereby optimize the therapeutic benefit of checkpoint inhibitors in the treatment of the checkpoint proteins PD-1 and PD-L1. Naptumomab, with its tumor-targeted qualities, increases the immune system's ability to recognize and attack the

tumor and preclinical data from several different pre-clinical studies show synergistic anti-tumor effects when naptumomab is combined with checkpoint inhibitors.

PARTNERSHIP WITH NEOTX THERAPEUTICS LTD.

In the autumn of 2016, Active Biotech signed a development and licensing agreement with NeoTX Therapeutics Ltd. for the continued development of naptumomab. NeoTX is financing and is responsible for the worldwide clinical development and commercialization of naptumomab. The total deal value amounts to USD 71 M and is contingent upon achievement of all clinical, regulatory and commercial milestones. In addition, Active Biotech will receive tiered double-digit royalties on future sales.



PROJECT STATUS AND OBJECTIVES FOR 2020

In October 2019, the first patient was dosed in the clinical Phase Ib/II combination study with naptumomab and the checkpoint inhibitor durvalumab. The initial stage of the study encompasses a dose-escalation aimed at determining the maximum tolerated dose of the combination before the study progresses to an expanded study. The study is sponsored by our partner NeoTX and is being conducted in accordance with an agreement with AstraZeneca.

Extensive preclinical data shows the additional effect when naptumomab is combined with checkpoint inhibitors in various tumor models. During the year, the results of the combination of naptumomab and durvalumab were presented at the scientific SITC conference. The results demonstrate synergistic anti-tumor efficacy of the combination and indicate a long-lasting anti-tumor response. In 2019, the US Patent Office granted a patent for the combination of naptumomab and checkpoint inhibitors, which provides patent protection until 2036.

We will support NeoTX in clinical development in the years ahead. The clinical combination study with naptumomab and durvalumab is proceeding according to plan and the initial phase, which aims to determine the maximum tolerated dose of the combination, is currently expected to be completed in 2020.

ONGOING CLINICAL TRIALS WITH NAPTUMOMAB

Currently, an open-label, multicenter, dose-finding clinical Phase Ib study with naptumomab in combination with durvalumab, a PD-L1 checkpoint inhibitor, is ongoing. The clinical trial will enroll patients with previously treated advanced or metastatic, 5T4-positive solid tumors and primarily aims to establish the maximum tolerated dose of the combination naptumomab/durvalumab. The trial was initiated in the second half of 2019 and is performed under an agreement with AstraZeneca. More information about the study is available at clinicaltrials.gov (NCT03983954).

CLINICAL EXPERIENCE WITH NAPTUMOMAB

Safety and tolerability of naptumomab as monotherapy and in combination with standard treatment have been established in clinical studies that include more than 300 patients. The previous clinical development of naptumomab includes Phase I studies on patients suffering from advanced non-small cell lung cancer, renal cell cancer and pancreatic cancer and a Phase II/III study in combination with interferon alpha in patients with renal cell cancer.[2,3]

Key publications

1. Naptumomab Estafenatox: targeted Immunotherapy with a Novel Immunotoxin. Eisen T, Hedlund G, Forsberg G, Hawkins R. Curr Oncol Rep. 2014; 16: 370

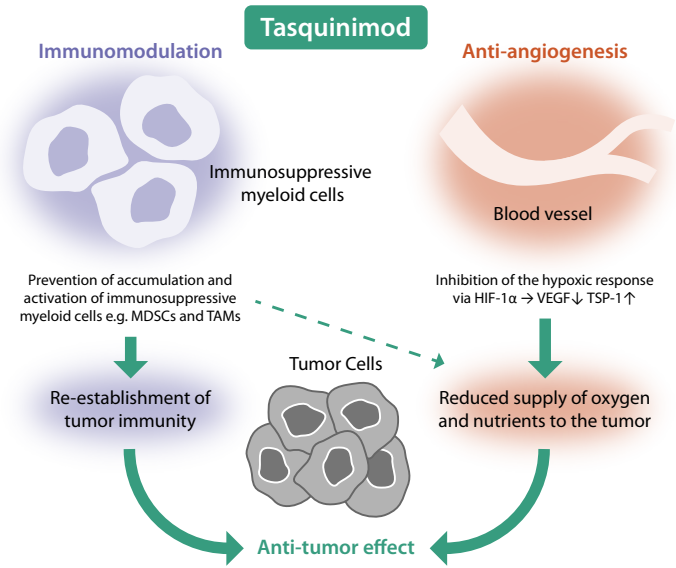
2. A Randomized Phase II/III Study of Naptumomab Estafenatox + IFNα versus IFNα in Renal Cell Carcinoma: Final Analysis with Baseline Biomarker Subgroup and Trend Analysis. Hawkins R, Gore M, Shparyk Y, Bondar V, Gladkov O, Ganev T, Harza M, Polenkov S, Bondarenko I, Karlov P, Karyakin O, Khasanov R, Hedlund G, Forsberg G, Nordle Ö, Eisen T. Clin Cancer Res. 2016; 22(13): 3172-81

3. Immunological response and overall survival in a subset of advanced renal cell carcinoma patients from a randomized phase 2/3 study of naptumomab estafenatox plus IFN-α versus IFN-α. Elkord E, Burt DJ, Sundstedt A, Nordle Ö, Hedlund G, Hawkins R. Oncotarget. 2015; 6(6): 4428-39

Targeting the tumor microenvironment

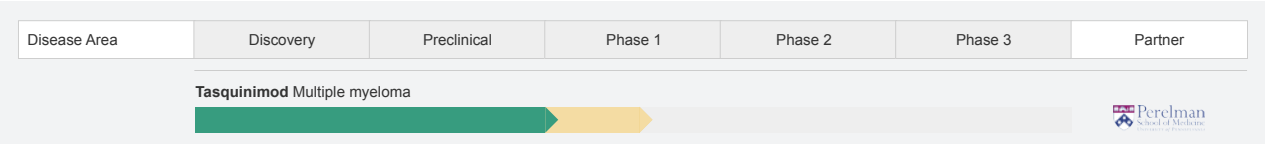
Tasquinimod

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.



MDSC – Myeloid derived suppressor cell
TAM – Tumor-associated macrophage
HIF-1α - Hypoxia-inducible factor-1α
VEGF - Vascular endothelial growth factor
TSP-1 – Thrombospondin-1

The immunosuppressed tumor microenvironment is essential for development of multiple myeloma in the bone marrow. Tasquinimod targets suppressive immune cells in the tumor microenvironment, specifically so called immunosuppressive myeloid cells[1,2], which enables the body's immune system to attack the tumor cells. Tasquinimod can also inhibit angiogenesis in the tumor. The inhibition of blood vessels means the tumor does not receive sufficient oxygen and nutrients and thus stops growing and ultimately dies. With this novel mode of action, tasquinimod has the potential, as a single therapy and in combination with other medicines, to overcome resistance and increase survival in patients that have progressed on standard therapy.



PROJECT STATUS AND OBJECTIVES FOR 2020

We have started an academic partnership with The Perelman School of Medicine, University of Pennsylvania, for the development of tasquinimod as a new immunomodulatory product for the treatment of multiple myeloma. We plan to start a clinical Phase Ib/IIa study in the third quarter of 2020. This program received funding from the Leukemia & Lymphoma Society in US.

Extensive preclinical studies performed in collaboration with the Wistar Institute in Philadelphia, during the past two years, provide clear support for the advancement of tasquinimod in multiple myeloma. 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. Additionally, 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.

The main objective for 2020 is that the clinical study starts and progresses as planned. Furthermore, preclinical work is to continue to further position tasquinimod in multiple myeloma.

Key publications

1. Tasquinimod triggers an early change in the polarization of tumor associated macrophages in the tumor microenvironment. Olsson A., Nakhlé J., Sundstedt A., Plas P., Bauchet A-L., Pierron V., Bruetschy L., Deronic A., Törngren M., Liberg D., Schmidlin F., Leanderson T. J ImmunoTher Cancer. 2015; 3:53

2. Tasquinimod modulates suppressive myeloid cells and enhances cancer immunotherapies in murine models. Shen L, Sundstedt A, Ciesielski MJ, Miles KM, Celander M, Adelaiye R, Orillion A, Ciamporcero E, Ramakrishnan S, Ellis L, Fenstermaker RA, Abrams SI, Eriksson H, Leanderson T, Olsson A, Pili R. Cancer Immunol Res. 2014; 3(2): 1-13

3. Randomized, Double-Blind, Placebo-Controlled Phase III Study of Tasquinimod in Men With Metastatic Castration-Resistant Prostate Cancer. Sternberg C., Armstrong A., Pili R., Ng S., Huddart R., Agarwal N., Khvorostenko D., Lyulko O., Brize A., Vogelzang N., Delva R., Harza M, Thanos A, James N., Werbrouck P., Bögemann M., Hutson T, Milecki P., Chowdhury S., Gallardo E., Schwartsmann G., Pouget J-C., Baton F., Nederman T., Tuvesson H., Carducci M. J. Clin. Oncol. 2016; 34(22): 2636-43.

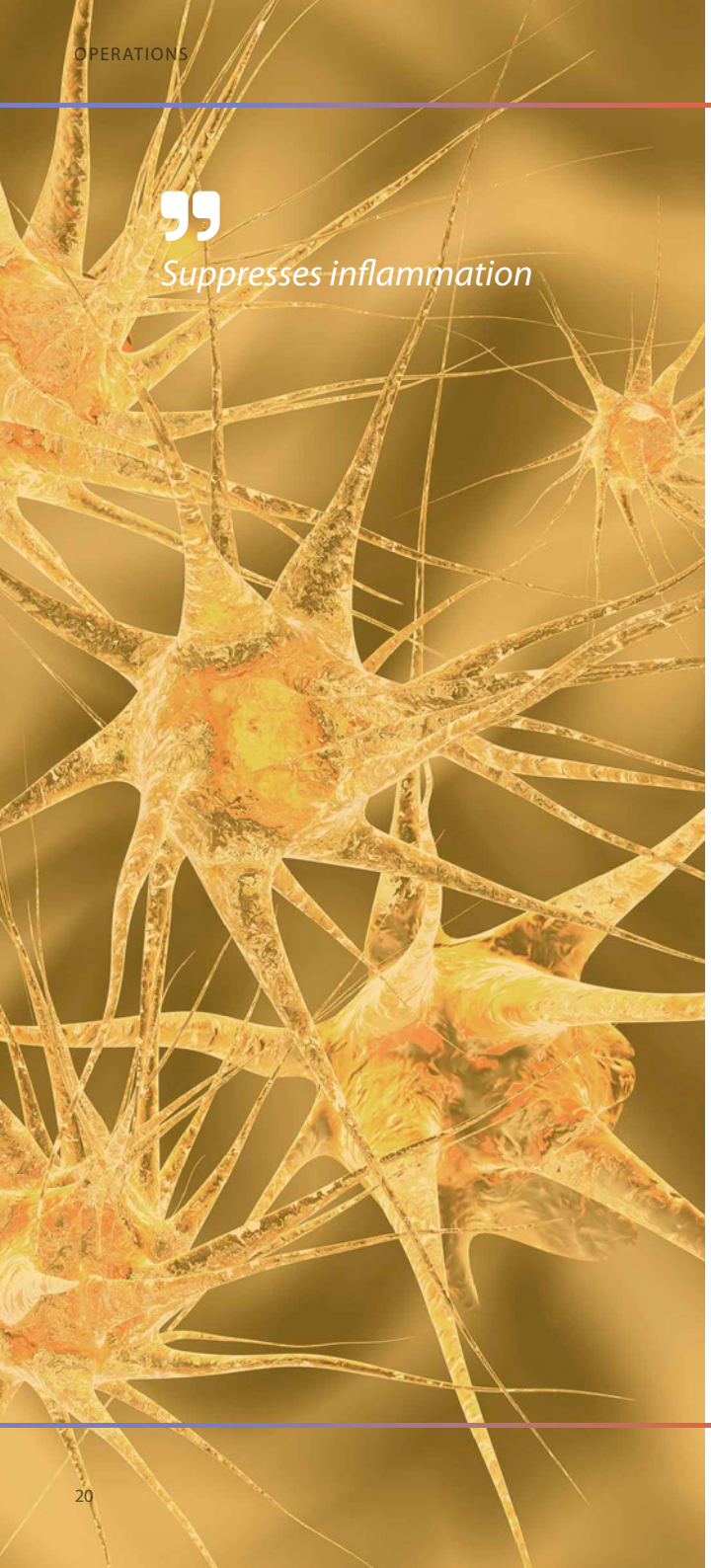
PLANNED CLINICAL TRIALS OF TASQUINIMOD IN MULTIPLE MYELOMA

The planned study is a dose escalation study of patients with relapsed and refractory multiple myeloma. The study will include up to 54 patients. The principal investigator is Dr Dan Vogl from The Perelman School of Medicine, University of Pennsylvania Abramson Cancer Center, Philadelphia. The primary endpoint of the study is to investigate the safety and tolerability of tasquinimod and determine a recommended dose of tasquinimod as monotherapy and in combination with standard treatment. The secondary endpoints include an evaluation of objective tumor response in treated patients.

CLINICAL EXPERIENCE OF TASQUINIMOD

Tasquinimod has been in development for the treatment of prostate cancer and has completed a Phase I-III clinical development program. While the results from the Phase III trial in prostate cancer showed that tasquinimod prolonged progression-free survival compared to placebo, tasquinimod did not extend overall survival in this patient population and development for prostate cancer was discontinued.

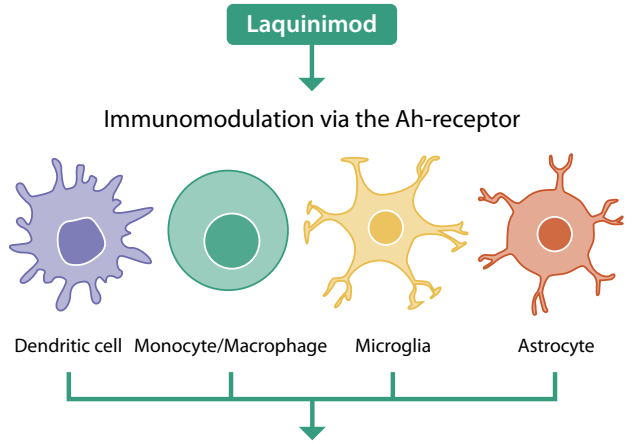
Tasquinimod was studied in both healthy volunteers and cancer patients. Clinical effects and a favorable safety profile have been demonstrated in more than 1,500 patients, equivalent to more than 650 patient-years of exposure to tasquinimod.



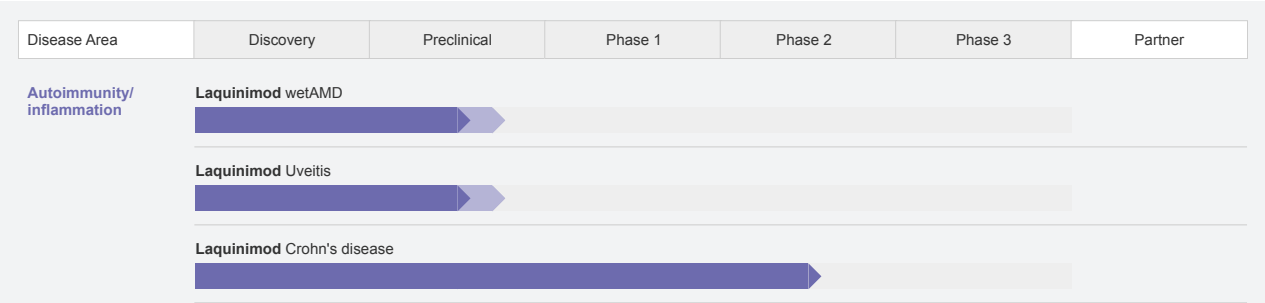
Suppresses inflammation

Laquinimod

Laquinimod is a once-daily, immunomodulatory compound. Laquinimod's clinical properties are well documented in earlier development primarily in neurodegenerative and autoimmune/inflammatory diseases.



Laquinimod works by activating the aryl hydrocarbon receptor (AhR). AhR is expressed in a range of different inflammatory cells and is important for modulation of the immunological and inflammatory response in various diseases. When laquinimod activates AhR, it influences, among other factors, the transcription factor NF-kB, which is central in the regulation of both the innate and adaptive immune system and acts as a conveyor of inflammatory reactions. Laquinimod suppresses the immune system and reduces the release of proinflammatory cytokines and the infiltration of immune cells.



LAQUINIMOD AS A NEW PRODUCT FOR THE TREATMENT OF EYE DISORDERS

Project status and objectives for 2020

Preclinical data supports the use of laquinimod for the treatment of the two eye disorders Wet AMD and uveitis.

Our focus in 2020 will be to define how best to develop laquinimod as a topical agent. In addition, we will conduct preclinical studies to increase understanding of the therapeutic potential of laquinimod in these diseases.

LAQUINIMOD AS A NEW PRODUCT FOR THE TREATMENT OF CROHN'S DISEASE

Project status and objectives for 2020

A prior clinical placebo-controlled Phase IIa study in patients with active, moderate to serious Crohn's disease, provided compelling data. Extensive preclinical studies of laquinimod in models of gastrointenstinal disorders, reflects a potential role for laquinimod in the treatment of Crohn's disease.

Over the next 12 months, we will update prior regulatory advice received from regulatory authorities in Europe and the US, as well as explore possible partnership modalities, including academic partnerships, to advance the evaluation of laquinimod in this indication.

CLINICAL EXPERIENCE OF LAQUINIMOD

During its years of advanced product development, clinical efficacy and safety data on laquinimod was established in more than 5,000 patients, primarily in multiple sclerosis (MS) patients, representing more than 14,000 patient-years of exposure. In addition, extensive datasets spanning full-scale manufacturing and preclinical safety data, in support of regulatory filings of multiple sclerosis for laquinimod, have also been generated.

Key publications

1. Laquinimod arrests experimental autoimmune encephalomyelitis by activating the aryl hydrocarbon receptor. Kaye J, Piryatinsky V, Birnberg T, Hingaly T, Raymond E, Kashi R, Amit-Romach E, Caballero IS, Towfic F, Ator MA, Rubinstein E, Laifenfeld D, Orbach A, Shinar D, Marantz Y, Grossman I, Knappertz V, Hayden MR, Laufer R. Proc Natl Acad Sci U S A. 2016 Oct 11;113(41)

2. A phase II study of laquinimod in Crohn's disease; D'Haens G, Sandborn WJ, Colombel JF, Rutgeerts P, Brown K, Barkay H, Sakov A, Haviv A, Feagan BG. Gut. 2015 Aug;64(8):1227-35

3. A randomized placebo-controlled phase III trial of oral laquinimod for multiple sclerosis. Vollmer T. L, Sorensen P.S, Selmaj K, Zipp F, Havrdova E, Cohen J. A, Sasson N, Gilgun-Sherki Y, Arnold D. L. J Neurol. 2014; 261(4): 773-83

MARKET OVERVIEW

Active Biotech's clinical projects are under development in therapy areas with significant market potential that have expected strong sales growth.

SOLID TUMORS – NEED TO OPTIMIZE THERAPY EFFECT

Immunotherapy has been of decisive importance for cancer care in recent years and the immuno-oncology market has demonstrated strong growth. Therapies aimed at targeting immune suppression are dominated by biological drugs classified as checkpoint inhibitors.

Several new checkpoint inhibitors have been approved for the treatment of various solid forms of tumors, including malignant melanoma, non-small cell lung cancer, head and neck cancer, liver cancer and cervical cancer.

Despite the enormous successes of recent years with checkpoint therapies, it remains a challenge for the body's immune system to find and recognize tumor cells, which is reflected in relatively few patients responding to treatment, and there is thus a need to optimize the therapy effect.

The candidate drug naptumomab increases the immune system's ability to recognize and redirect immune cells to the tumor. Combination strategies involving naptumomab could open up further potential among checkpoint inhibitors in the area of immuno-oncology.

There are several pharmaceutical companies that, similar to Active Biotech, develop tumor-targeting immunotherapy. Two examples of this type of treatment are CAR-T cell therapy and bispecific antibodies, which are currently in the early development phase for the treatment of solid tumors. Naptumomab differs significantly from competing tumor-targeting therapies as a result of its already established safety profile in solid tumors and a relatively simple and thus cost-efficient manufacturing procedure.

Immunotherapy is one of the major breakthroughs of recent years in cancer therapy, which is reflected in the checkpoint inhibitors Keytruda®, Opdivo, Imfinzi and Tecentriq achieving combined global sales of USD 15 billion in 2018. The strong sales development for checkpoint inhibitors is expected to continue and sales are forecast at USD 44 billion in 2024[1].

MULTIPLE MYELOMA – A GROWING MARKET

Multiple myeloma is an incurable blood cancer in which abnormal plasma cells in the bone marrow grow uncontrollably while other blood forming cells such as white and red blood cells and blood platelets are suppressed. This leads to anemia, infections, destruction of bone tissue and progressive loss of renal function. Despite new treatments having greatly improved survival of multiple myeloma patients, the biological heterogeneity of the disease and the emergence of drug resistance is a major challenge, and the medical need of innovative treatment modalities remains high.

The expected annual incidence of diagnosed cases of multiple myeloma in the US is approximately 30,000 patients, in Europe and Japan an estimated 40,000 and 7,000 new patients, respectively, are expected to be diagnosed each year. The global sales[2] of drugs for the treatment of multiple myeloma totaled USD 13.2 billion in 2017 and sales are expected to increase to USD 21.9 billion in 2020 and USD 31.4 billion in 2024.

The market for drugs used in the treatment of multiple myeloma is experiencing strong growth and is expected to continue to grow strongly due to the greater incidence, longer progression-free and total survival and reduced mortality. The US accounts for around half of the market and EU countries for approximately 40 percent of the total market sales.

Currently, the market is dominated by drugs that can be divided into four different classes:

1. Immunomodulatory imides (IMiD)
2. Proteasome inhibitors (PI)
3. Anti-CD38 antibodies
4. Alkylating cytostatics

The market for the treatment of multiple myeloma is currently undergoing rapid advances and innovative combinations of drugs are expected to become standard treatment.

The disease is considered chronic, for which the potential of a cure is limited, but the treatment methods are continuously improving. In early as well as relapse treatment, the goal is to stabilize the patient's disease and thereby achieve as long a period of effective disease

control as possible. This is achieved successfully by combining drugs from the various drug classes. Despite this, patients eventually relapse in their disease and develop resistance to existing drugs.

Active Biotech's candidate drug tasquinimod represents a new class of drugs with a mechanism of action that differs from the others and thus has the potential to overcome the problem of drug resistance. This could change the treatment landscape for patients with multiple myeloma.

TOPICAL AGENT FOR EYE DISORDERS

Wet AMD – age-related macular degeneration (AMD) is caused by damage to the macula or retina, which results in blurred or loss of vision in the center of the visual field and the leading cause of blindness in the Western world. In the neovascular AMD, the "wet" form of advanced AMD (Wet AMD), abnormal blood vessel growth in the eye may lead to vision loss. Bleeding, leaking and scarring from these vessels cause irreversible damage and retinal detachment. About 10-20 percent of late-stage AMD cases progress into Wet AMD, and is responsible for 90 percent of acute blindness due to age-related macular degeneration. Wet AMD is today treated using intravitreal injections into the eye of antibodies targeting the vascular endothelial growth factor (VEGF). However, even with these therapies, there is a great unmet need of new effective treatments without the use of injection-based modalities.

Around 3 million people in the seven major markets were estimated to have Wet AMD in 2018. Global sales[2] of drugs for Wet AMD totaled USD 6.3 billion in 2018 and sales are expected to increase 67 percent by 2026.

Uveitis is the inflammation of the uveal tract (iris, ciliary body, & choroid), but can also lead to inflammation of nearby tissues, such as the retina, the optic nerve and the vitreous humor. General vision problems, floaters-spots in the eye, eye pain and redness, photophobia, headache, small pupil, alteration of iris color are common symptoms. If left untreated, uveitis can lead to severe eye problems, including blindness, cataracts, glaucoma, damage to the optic nerve, and detachment of the retina. There is a significant need for new therapies to avoid the abundant complications of long-term corticosteroid use, which is today the most common treatment of non-infectious uveitis.

Around 1 million people in the seven major markets were estimated to have uveitis in 2017. The global sales[2] of drugs for uveitis totaled USD 615 million in 2017 and sales are expected to increase 70 percent by 2026.

ABOUT CROHN'S DISEASE

Crohn's disease is classified as an inflammatory bowel disease (IBD) in which autoimmune activity causes inflammation of the gastrointestinal tract. The symptoms of the disease can vary significantly among afflicted individuals. The main symptoms are abdominal pain, diarrhea, or weight loss. Crohn's disease can also cause complications outside of the gastrointestinal tract such as skin rashes, arthritis, and inflammation of the eye. Although treatment with pharmaceutical agents and/or surgery can lead to clinically significant improvements in Crohn's disease, relapse is the major problem and a need exists for a new drug to provide maintenance of tissue healing.

During 2018, the number of treated patients with Crohn's disease in the seven major markets amounted to approximately 0.5 million. The global sales[2] of drugs for Crohn's disease totaled USD 12.4 billion in 2018 and sales are expected to increase by more than 30 percent by 2026.

ORPHAN DRUG STATUS

Active Biotech's tasquinimod project has orphan drug status for the treatment of multiple myeloma in the US. The orphan drug designation has been introduced to promote the development of drugs that may provide significant benefit to patients suffering from rare conditions. To qualify for orphan drug designation, a medicine must meet a number of criteria, for example, it must be intended for a life-threatening or chronically debilitating disease. Furthermore, the condition must be rare and the medicine must provide significant benefit to those suffering from the disease. Orphan drug designation provides for seven to ten years of market exclusivity against competition, as well as certain incentives. Further information on orphan drugs can be found on the EMA and FDA websites.

1. JP Morgan Equity research 2018
2. Global Data 2019

INTELLECTUAL PROPERTY RIGHTS

Active Biotech has built its patent portfolio through strategically defined patent families, primarily in the areas of inflammation and cancer.

Strong patent protection is a requirement for investments in the development of a product for commercialization. Active Biotech's patent protection covers new chemical substances, biochemical structures, methods, uses and processes related to the Company's operations in key markets. Patents and patent applications refer primarily to such commercially important markets as Europe, the US and Japan. Laquinimod, tasquinimod and naptumomab estafenatox are specifically protected by several patent families. The patent portfolio also includes patent protection for compounds that are structurally similar to laquinimod and tasquinimod.

Active Biotech works continuously to optimize its patent portfolio to secure the projects with the best possible protection in the most important markets. In recent years, Active Biotech has strengthened its patent portfolio, adding two new patent families, with a term of protection lasting until 2035, for the use of tasquinimod in the treatment of blood cancer diseases. To date, patents have been granted in key markets, the US, Europe and Japan, for the use of tasquinimod in multiple myeloma and acute forms of leukemia. The company's partner, NeoTX, has strengthened its patent portfolio with a patent application for the use of naptumomab in combination with checkpoint inhibitors for the treatment of cancer. This could provide an extension of the patent protection until 2036. In 2019, Teva Pharmaceutical Industries Ltd assigned strategically important patents and patent applications to Active Biotech.

The company's projects are protected by a total of 219 granted national patents and further applications will be granted in the next few years, see the table.

	Type of patent (publication number)	Area	Status	Year of expiry
Tasquinimod	Alternative manufacturing method (WO2012004338)	Europe US Japan (total 22)	Granted Granted Granted (granted 22)	2031 2031 2031
	Treatment method (WO2016042112)	Europe US Japan (total 28)	Granted Granted Granted (granted 21, application 7)	2035 2035 2035
	Treatment method (WO2016078921)	Europe US Japan (total 27)	Granted Granted Granted (granted 19, application 9)	2035 2035 2035
	Treatment method (WO2016146329)	Europe US Japan (total 6)	Approved Application Application (approved 1, application 5)	2036 2036 2036
Naptumomab	Product (WO2003002143)	Europe US Japan (total 21)	Granted Granted Granted (granted 20, application 1)	2021, 2022 2022 2022
	Treatment method (WO2006015882)	Europe US (total 10)	Granted Granted (granted 10)	2025, 2026 2025
	Treatment method (WO2017122098)	Europe US Japan (total 11)	Application Granted Application (granted 1, application 10)	2036 2036 2036

	Type of patent (publication number)	Area	Status	Year of expiry
Laquinimod	Manufacturing method (WO03106424)	Europe US Japan (total 23)	Granted Granted Granted (granted 23)	2023 2025 2023
	Pharmaceutical product (WO2005074899)	Europe US Japan (total 26)	Granted Granted Granted (granted 26)	2025 2027 2025
	Pharmaceutical product (WO2007146248)	Europe US Japan (total 21)	Granted Granted Granted (granted 20, application 1)	2027 2029 2027
	Pharmaceutical product (WO2010001257)	US (total 1)	Granted (granted 1)	2029
	Treatment method (WO2011019375)	Europe US Japan (total 18)	Granted Granted Granted (granted 16, application 2)	2030 2033 2030
	Pharmaceutical product (WO2009082471)	US (total 2)	Granted (granted 2)	2030
	Treatment method (WO2011014255)	US (total 1)	Granted (granted 1)	2031
	Pharmaceutical product (WO2013123419)	US (total 1)	Granted (granted 1)	2033
	Treatment method (WO2013116657)	US (total 1)	Granted (granted 1)	2033
	Treatment method (WO2014028397)	US (total 1)	Granted (granted 1)	2033
SILC	Product (WO2014184234)	Europe US Japan (total 22)	Granted Granted Granted (granted 18, application 4)	2034 2034 2034
	Product (WO2015177367)	Europe US Japan (total 20)	Granted Granted Granted (granted 16, application 4)	2035 2035 2035

EMPLOYEES

A competent and cohesive team

Active Biotech has an organization in which each employee has a key role to secure the established goals for the company. The employees and their competence are Active Biotech's single most important asset.

Undertaking the development of pharmaceuticals is a very complex business governed by comprehensive rules, which requires employees with specialist competence and the ability to conduct the operations in accordance with prioritized activities, time lines and official requirements.

VIRTUAL ORGANIZATION WITH COMPETENT EMPLOYEES

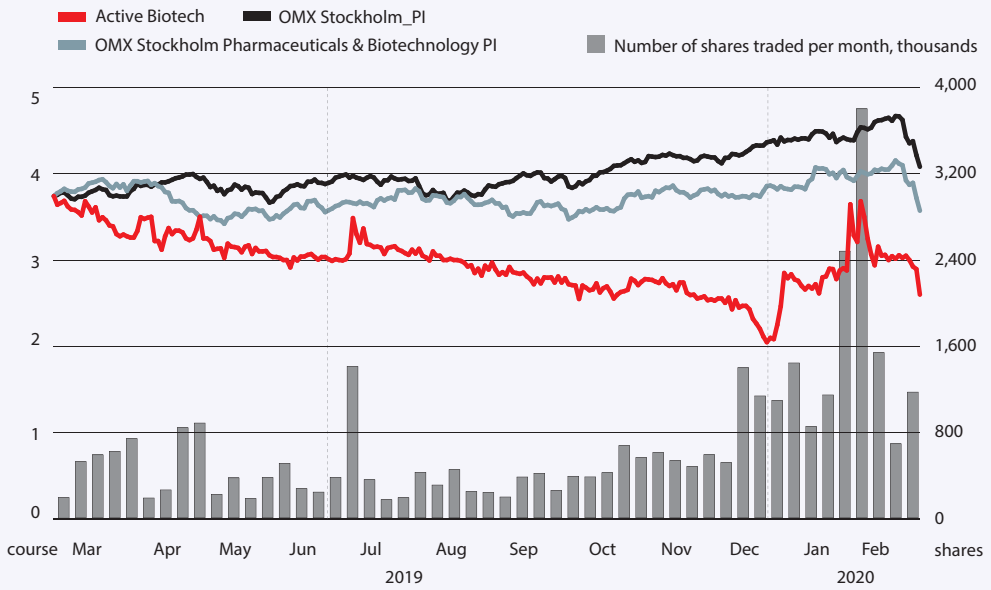
Active Biotech's research and development is organized to enable the combination of cost-effectiveness, quality and flexibility. The company has a virtual organization that places demands on each employee having specialist competence in their specific areas in order to be a competent partner in scientific collaborations and procurement of external services. Competence sharing between the employees occurs continuously and each individual has a good overview of all parts of the business. The education level among the employees is high; most have university-level education and Ph.Ds. Most employees have long experience from early to late-stage pharmaceutical development, as well as experience of participating in and leading external collaborations and partnerships in the biotech and pharmaceutical industries. Active Biotech also has a number of collaborations with academic research groups, industrial partners and service providers to secure all parts of the operations.

The high level of competence among our employees is further strengthened through continuous further training and participation in scientific meetings and conferences in areas in which the company operates.

Active Biotech offers a secure and stable work environment. The employees know each other well and the work climate is perceived as positive. It is the company's objective to continue to be a workplace characterized by knowledge, creativity and participation.

THE SHARE

Active Biotech's share is 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 converted into a dedicated biotechnology company in 1998. 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 2014 – February 2020.



Source: Web Financial Group

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, 2019, the share capital in Active Biotech amounted to SEK 750,000 distributed among 145,236,480 shares. The share's quotient value is approximately SEK 0.005164.

SHARE PRICE DEVELOPMENT

On the final day of trading in December 2019, the share price was SEK 2.25, while at the same date in 2018, it was SEK 3.01. The highest price paid for the share during the year was SEK 4.415 (January 14, 2019).

CHANGES IN SHARE CAPITAL

The table on page 31 shows the changes in Active Biotech's share capital from 2000 to December 2019.

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.

TICKER:

ACTI

NO. OF SHAREHOLDERS:

13,713

FINANCIAL INFORMATION

Interim Report, 3 months: April 23, 2020
Annual General Meeting: May 19, 2020
Interim Report, 6 months: August 6, 2020
Interim Report, 9 months: November 5, 2020
Year-end report 2020: February 11, 2021

SHAREHOLDERS

On March 31, 2020, the number of shareholders in Active Biotech amounted to 13,713. This data is based on information known to the company at March 31, 2020.

Owners	No. of shares	Holding, %
MGA Holding AB	38,001,405	26.2%
Nordstjernan AB	19,095,451	13.1%
Avanza Pension	8,190,397	5.6%
Handelsbanken Liv	7,859,980	5.4%
Fourth Swedish National Pension Fund	3,908,724	2.7%
Third Swedish National Pension Fund	3,893,722	2.7%
Peter Thelin with companies	2,850,000	2.0%
EFG Bank / Geneva	2,302,106	1.6%
Credit Suisse	2,300,133	1.6%
SEB Foundation, Skand Enskilda	1,838,460	1.3%
Ten largest owners	**90,240,378**	**62.1%**
Other	54,996,102	37.9%
Total	**145,236,480**	**100.0%**

SHAREHOLDER STATISTICS,

March 31, 2020.

Shareholding interval	No. of shareholders	% of all shareholders	No. of shares	% of number of shares	Average per shareholder
1 – 1,000	9,474	69.1%	2,518,270	1.7%	266
1,001 – 10,000	3,473	25.3%	11,685,797	8.0%	3,365
10,001 – 100,000	684	5.0%	19,136,489	13.2%	27,977
100,001 –	82	0.6%	111,895,924	77.0%	1,364,584
Total	**13,713**	**100.0%**	**145,236,480**	**100.0%**	**10,591**

CHANGES IN SHARE CAPITAL

Year	Transaction	Change in number of shares	Change in share capital	Total no. of shares		Total share capital, SEK	Quotient value, SEK
				Class A shares	Class B shares		
	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.-Sept.)	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 (Mar.)	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 (Apr.)	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
2018	Rights issue	48,412,160	250,000	145,236,480		750,000	0.005

CORPORATE GOVERNANCE REPORT 2019

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 2019. 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, since the company's main owner Mats Arnhög (MGA Holding) at the 2019 AGM stepped down from the Board and the position as Chairman of Board, it was appropriate given the interest in effective and cohesive Election Committee work that the new Chairman of the Board, Michael Shalmi, was also appointed as convener and Chairman of the Election Committee.

Shareholders

At December 31, 2019, the number of shareholders in Active Biotech amounted to 12,962. For information concerning the company's major shareholders and the ownership structure, see page 30 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 represents 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 May 23, 2019, 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 preemptive 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 30 percent of the total number of 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 May 23, 2019, it was resolved that the company's Chairman, based on ownership at the end of September 2019, convene an Election Committee to prepare proposals for the 2020 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 19, 2019. A meeting of the Election Committee was convened on one occasion ahead of the 2020 AGM, which was attended by all of its members.

Members	Represents	Board member or not
Michael Shalmi	Chairman of the Board	Chairman
Mats Arnhög	MGA Holding AB	Not a member
Angela Langemar Olsson	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 2019 AGM elected the current Board, which consists of four ordinary members with no deputies. Michael Shalmi was elected Chairman of the Board. The AGM resolved that remuneration of the Board's ordinary members be paid in the amount of SEK 200,000 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 500,000 per year. For a more detailed presentation of the Board members and President & CEO, see page 36-37 of this Annual Report. Of the Board members elected by the 2019 AGM, all are independent in relation to the company and executive management. All of the four members are independent in relation to the company's major shareholders.

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 should primarily focus on general and long-term issues as well as issues of exceptional nature or great importance in other respects. 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 2019, 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 efficacy 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
Michael Shalmi	6/6*	independent	independent
Peter Thelin	11/11	independent	independent
Peter Sjöstrand	11/11	independent	independent
Uli Hacksell	4/6*	independent	independent

* Appointed at the 2019 AGM

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 5 on pages 67-70.

Control systems and risk management regarding financial reporting

In accordance with the Swedish 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. Follow-up

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. Follow-up

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.

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.

Auditor

The company has at least one and at most two auditors and at most two deputy auditors. At the AGM on May 23, 2019, KPMG AB was elected as the company's auditor for the period extending until the end of the AGM held in 2020. Authorized Public Accountant Linda Bengtsson is auditor-in-charge. Information concerning auditors' fees is presented in Note 4 on page 66. The interim report for the January-September period 2019 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 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.

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 2019 Corporate Governance Report on pages 32–35 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 Report". 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. Disclosures in accordance with Ch. 6. Section 6, Second paragraph, items 2–6 of the Swedish Annual Accounts Act, and Ch. 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 22, 2020

Linda Bengtsson
Authorized Public Accountant
KPMG AB

BOARD OF DIRECTORS AND AUDITOR

Michael Shalmi
Chairman of the Board

Chair of the Board since 2019. Born 1965.

Education: Physician from University of Copenhagen and MBA from Scandinavian International Management Institute in Copenhagen.

Holding in the company: None.

Other current assignments: Board member of *Evotec AG* and *Momentum Gruppen A/S*.

Previous assignments (past five years): Managing Director and Head of Principal Investments of *Novo Holdings A/S*.

Uli Hacksell
Board member

Board member since 2019. Born 1950.

Education: Pharmacist, Doctor of Pharmaceutical Science and associate Professor at Uppsala University.

Holding in the company: None.

Other current assignments: Acting CEO and Board member of *Medivir AB*. Chairman of the Board of *Adhera Therapeutics Inc.* and Board member of *Beactica AB*, *Cerecor Inc*, *InDex Pharmaceuticals AB* and *Uppsala University*.

Previous assignments (past five years): CEO of *ACADIA Pharmaceuticals* and *Cerecor*. Chairman of *Cerecor*.

Peter Sjöstrand
Board member

Board member since 2000. Born: 1946.

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

Holding in the company: 38,769 shares.

Other current assignments: Chairman of *Byggnads AB S:t Erik*, *Stiftelsen Oscar Hirschs Minne* and *Ringens Varv AB*. Board Member of *SAMF Sweden AB*, *Advanced Oncotheraputics PLC*, *Peter Sjöstrand AB* and companies in the *Acturum Group*. Member of *Vatera Holding* Advisory Board. Deputy Board member of *Materulla AB*.

Previous assignments (past five years): Board member of *Spatial Transcriptomics AB*.

Peter Thelin
Board member

Board member since 2011. Born: 1956.

Education: Graduate, Stockholm School of Economics.

Holding in the company: 2,850,000 shares (privately and via companies).

Other current assignments: President of *Carve Capital AB*. Chairman of the Board of Stiftelsen *Hjärnfonden*. Board member of *Brummer & Partners AB*, *ELC Fastigheter AB*, *East Bay AB*, *Sjunda Gård AB*, *Carve Intressenter AB*, *Sjuenda Holding AB* and *Rebellion Oil 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*.

Linda Bengtsson
Auditor

KPMG AB with Linda Bengtsson as auditor-in-charge. Born: 1974.

Authorized Public Accountant KPMG.

EXECUTIVE MANAGEMENT

Helén Tuvesson
President and CEO

President and CEO since 2017, born in 1962, holding in the company, 11,892 shares

Helén Tuvesson has a PhD in cellular and molecular biology in medical science from Lund University. Helén has more than 25 years of experience in leading drug development in senior positions within preclinical and clinical development at Pharmacia and Active Biotech, including as Chief Scientific Officer for six years at Active Biotech. In this role, Helén was responsible for the operational research activities within the company as well as the company's project portfolio in late stage clinical development in neurodegenerative diseases and cancer indications.

Hans Kolam
Chief Financial Officer

Chief Financial Officer since 2000, born in 1951, holding in the company, 53,461 shares (of which 3,696 shares via related parties).

Hans Kolam Hans Kolam has a BSc in Business Administration from Uppsala University. Hans has more than 40 years of experience from the pharmaceutical industry with senior financial positions during the years 1979-2000 at Pharmacia. Hans also has extensive experience from investor relations and business development.

Helena Eriksson
Chief Scientific Officer

Head of Research since 2017, born in 1968, holding in the company, 3,294 shares.

Helena Eriksson has a Ph.D in experimental hematology in medical science from Lund University. Helena has more than 25 years of experience in the pharmaceutical industry, with more than 15 years of experience in projects, line and scientific leadership at Pharmacia and Active Biotech. Today, Helena is responsible for the company's research and development, with projects in preclinic and clinic, as well as for the company's patent portfolio. Helena has previously led operations in the biology department with a focus on cell and molecular biology, biochemistry and in vivo pharmacology at Active Biotech.

Therapy areas with high medical needs

DIRECTORS' REPORT, FINANCIAL STATEMENTS AND NOTES

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, 2019 to December 31, 2019.

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

GROUP AND PARENT COMPANY

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 three wholly owned subsidiaries, see Note 21.

OPERATIONS

Active Biotech focuses on pharmaceutical research and development in therapy areas with high medical needs and in which the body's immune system plays a significant role. The project portfolio comprises small, orally active immunomodulatory molecules and anti-body based immunotherapy developed for the treatment of cancer and inflammatory diseases.

The company's naptumomab project has been out-licensed to NeoTX Therapeutics Ltd (NeoTX) since October 2016 for the development of treatment of solid tumors and a clinical Phase Ib/II study began in 2019.

The tasquinimod project is being developed for the treatment of multiple myeloma in an academic partnership with The Perelman School of Medicine, University of Pennsylvania. Preparations are ongoing for a Phase Ib/IIa study.

The laquinimod project is being developed for the treatment of the eye disorders Wet AMD and uveitis and for the treatment of Crohn's disease. Preclinical activities are continuing to increase our understanding of the therapeutic potential of laquinimod in eye diseases. A prior clinical Phase IIa study for use in Crohn's disease has provided compelling data for the use of laquinimod in this indication. Possible partnership modalities, including academic partnerships, are being evaluated to advance the evaluation of laquinimod in this indication.

SIGNIFICANT EVENTS IN 2019

- On February 1, Active Biotech received an indicative, non-binding bid for the company's property, amounting to SEK 275 M, from the newly established investor collective led by the real estate company Estea AB (Estea).
- The company announced on February 11 that Active Biotech's partner NeoTX had entered a collaboration with AstraZeneca to evaluate Naptumomab estafenatox (naptumomab, ANYARA) in combination with IMFINZI® (durvalumab) in the upcoming Phase Ib/II study.
- Active Biotech announced on March 13 that the company had entered into an agreement to sell the company's property. The purchase price amounted to SEK 275 M and the company convened an Extraordinary General Meeting on April 4.
- On April 4 and 5, the General Meeting resolved, in accordance with the Board's proposal, to approve the sale of the company's property Forskaren 1 in Lund, Sweden, to a newly formed investor collective led by the real estate company Estea AB. On April 5, the sale was completed of the property, Forskaren 1, to Estea Forskaren PropCo AB.
- The Phase II study LEGATO-HD of laquinimod in Huntington's disease was presented on May 6 at the American Academy of Neurology (AAN) scientific conference in Philadelphia, USA.
- The AGM resolved on May 23 to appoint Michael Shalmi as new Chairman of the Board and Uli Hacksell as new ordinary member.
- On September 23, new data was presented from the Phase II LEGATO-HD study relating to laquinimod in Huntington's disease at the International congress of Parkinson's disease and Movement disorders.

- Active Biotech and NeoTX announced on October 28 the dosing of the first patient in the Phase Ib trial of naptumomab in combination with durvalumab in solid tumors.
- On November 8, the company announced that its partner NeoTX is to present new preclinical data on the drug candidate naptumomab estafenatox at the scientific conference at the Society for Immunotherapy of Cancer's (SITC) 34th Annual Meeting in National Harbor, Maryland, USA.

ORGANIZATION

The average number of employees in the Group during the year amounted to 12 (16), of whom 6 (8) were women. Of the total number of employees, three are attached to the property services sold to Estea Forskaren PropCo AB. The average age of the employees was 56 (57) with an average employment period of 21.4 years (23.6). To conduct effective operations with a relatively small organization, Active Biotech engages consultants with specialist competence for specific assignments and for tasks in the fields of expertise that the company lacks or only has a need for periodically.

The number of employees at the end of 2019 was 11, of whom 6 were women.

INCENTIVE PROGRAMS

There are no outstanding incentive programs.

SALES AND EARNINGS

Revenue, expenses and earnings

Net sales for the January-December period amounted to SEK 8.4 M (20.1) and comprised SEK 4.9 M (16.0) in rental revenues and SEK 3.5 M (4.1) in service and other revenues.

The total research expenses for full-year 2019 amounted to SEK 28.5 M (39.3). In 2019, the company's research activities were focused on the scientific and commercial evaluation of laquinimod and tasquinimod so that decisions can be made on the company's future direction, support in the development of the naptumomab project and technology transfer of laquinimod from Teva. Research expenses included approximately SEK 4 M in one-off costs related to the scientific and commercial evaluation of laquinimod and tasquinimod linked to the company's new direction.

Administrative expenses amounted to SEK 12.2 M (10.6). The operating loss for the period amounted to SEK 32.3 M (loss: 29.8). Net financial expense for the period was SEK 1.8 M (expense: 7.0) and the loss after tax to SEK 34.1 M (loss: 36.9).

COMMENTS ON THE BALANCE SHEET

At year-end 2019, the Group's total assets amounted to SEK 67.0 M (302.4), of which tangible fixed assets accounted for SEK 3.2 M (1.3). The sharp decrease in assets is a direct result of the sale of the company's property. At year-end, cash and cash equivalents and financial investments totaled SEK 59.7 M (25.6).

CASH AND CASH EQUIVALENTS AND FINANCIAL POSITION

At year-end, cash and cash equivalents totaled SEK 59.7 M (25.6). 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 55.6 M were invested in short-term Swedish securities. Interest-bearing liabilities amounted to SEK 3.3 M (204.4), of which SEK 204.1 M is represented by a property loan in 2018. Following the sale of the property, the property loan was repaid and the remaining interest-bearing liabilities consist solely of liabilities attributable to the Group's lease commitments. At the end of the year, consolidated shareholders' equity amounted to SEK 53.8 M (87.9) and the equity/assets ratio was 80.3 percent, compared with 29.1 percent at year-end 2018.

COMMENTS ON THE CASH-FLOW STATEMENT

The Group's cash flow for full-year 2019 was SEK 34.1 million (0.4). The negative cash flow from operating activities amounted to SEK -35.8 M (neg: -40.6). Cash flow from operating activities totaled SEK 275.0 M (0.0) as a result of the completed property sale. Cash flow from investing activities amounted to a negative SEK -205.1 M (41.0), which is a result of the repayment of the outstanding property loan in connection with the completion of the transaction. A rights issue comprising 48,412,160 shares was carried out in 2018, raising proceeds of approximately SEK 47.1 M after issue expenses. Investments in tangible fixed assets amounted to SEK 0.0 M (0.0).

THE ACTIVE BIOTECH SHARE

Share capital and ownership structure

At year-end 2019, Active Biotech AB's share capital amounted to SEK 750,000 distributed among 145,236,480 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 30 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 32-35.

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 8.3 M (23.2). Operating expenses for the period amounted to SEK 41.0 M (58.0). Investments in tangible fixed assets amounted to SEK 0.0 M (0.0) for the period. At year-end, the Parent Company's cash and cash equivalents, including short-term investments, amounted to SEK 59.4 M, compared with SEK 24.2 M at the beginning of the year. The loss after tax was SEK 32.6 M (loss: 34.9).

RISKS AND UNCERTAINTY FACTORS

Executive management in Active Biotech makes continuous assumptions, assessments and estimates that impact the content of the company's financial statements. Actual results may differ from these assessments and estimates. The aim of the Group's risk management is to identify, assess and limit uncertainties and risks in the operation. The risks can be divided into company-related risks, operational risks and financial risks.

Company-related risks

Dependence on key employees

Active Biotech is dependent on key employees to a high degree. The ability to recruit and retain qualified employees is of the utmost importance in ensuring the level of expertise in the company.

Operational risks

Research and development

Research and pharmaceutical development are associated with high risk, since a large amount of financial resources are invested in a product that will perhaps never become a finished drug. Most projects that are started will never achieve the stage of market registration. The research project may be rejected during the development process, since the compounds that are developed could either not demonstrate the intended effect or demonstrate risks for unwanted side effects. Competing pharmaceutical or biotech companies may conduct research into the same therapy area, which could make it less attractive to complete a project for marketing reasons.

Patent protection

Active Biotech's future success will largely depend on the company's ability to obtain and maintain the protection of intellectual property rights relating to the company's products. The conditions for patenting discoveries in the field of pharmaceuticals and biotechnology are generally difficult to assess and involve complex legal and scientific issue. There is no guarantee that Active Biotech will be able to obtain and maintain patents for its products or its technologies. Even when patents have been issued, they could be subject to objection, be disqualified or bypassed, which could restrict Active Biotech's ability to prevent competitors from marketing similar products and limiting the time that Active Biotech has to be able to establish patent protection.

Production

Active Biotech has no production of its own, which is why the company is dependent on subcontractors for product and pharmaceutical production and production for preclinical and clinical development. There is a risk that Active Biotech will not have the possibility to meet

its production needs at a reasonable cost at the specific point in time.

Official permits and regulatory approval

Active Biotech is exposed to official decisions, such as necessary permits for conducting clinical trials and commercializing pharmaceuticals, as well as rule changes for pricing and discounting of drugs or changed conditions for the prescription of pharmaceuticals.

Partnership agreement

Active Biotech is and will continue to be dependent on partnerships with pharmaceuticals and biotechnology companies for the development and sale of potential products. Differences of opinions and conflicts may arise between Active Biotech and its partners regarding the conditions in applicable agreements, such as interpretation of clinical data, achieving financial remuneration, ownership rights to patents and similar rights that developed within the framework of these partnerships.

Competition and commercial success

Active Biotech is active in attractive therapy areas with a large medical need, which entails that the competition is significant and competitors may develop, market and sell drugs that are more effective, safer and at a lower price than Active Biotech or its partners. The pharmaceuticals industry is highly competitive and there is a risk that it will not be possible to maintain existing product margins. Competitors may also have higher production and distribution capacity, as well as sales and marketing possibilities than Active Biotech and its partners.

Product liability and insurance

Active Biotech's operations involve product liability, which is unavoidable in conducting clinical trials and the manufacture of pharmaceuticals. Although the company makes the assessment that its existing insurance coverage is sufficient, the scope and remuneration of the insurance coverage is limited, meaning that there are no guarantees that Active Biotech will gain full compensation for any damages under the existing insurance coverage. It cannot be guaranteed that appropriate insurance protection can be obtained at an acceptable cost or that such insurance protection can be obtained at all. Accordingly, there is a risk that insufficient or excessively expensive insurance protection could have a negative impact on the company's operations, financial position and earnings.

Financial risks

Exchange rate and credit risks

Assets, liabilities, revenue and expenses in foreign currency give rise to currency exposure. A weakening of the SEK against other currencies increases Active Biotech's recognized assets, liabilities, revenue and earnings, while a strengthening of the SEK against other currencies will reduce these items. The company is exposed to such changes since the operations are conducted in Sweden and any future remuneration in accordance with the company's partnerships will be paid in foreign currency. Since Active Biotech does not make use of forward contracts or options to hedge foreign-exchange risk, exchange-rate effects may directly impact the income statement, which could lead to a negative impact on the company's financial position and earnings. 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 40.7 M during the fiscal year, of which about 20 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.

Credit risk refers to the risk that a counterparty does not meet its obligations to pay a liability or pay the interest on a liability. In the event that any counterparty cannot meet their obligations to Active Biotech, there may be a negative impact on the company's financial position and earnings. 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 19 on page 83.

Liquidity and interest-rate risk

Liquidity risk relates to the risk that Active Biotech, due to a shortage of cash and cash equivalents, cannot meet its financial obligations or has a reduced ability to conduct its operations effectively. 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 financial assets and liabilities is the most significant factor that influences the interest-rate risk. The liquidity risk could have a negative impact on the company's operations, financial position and earnings. The divestment of the company's property and settlement of the property credits in April 2019,

entail that the company's interest-rate risk has a marginal impact on the company's financial position.

Continuing losses and future capital requirements

Since its operations started, Active Biotech has reported an operating loss and will continue to require significant capital injections for research and development with the aim of conducting preclinical and clinical studies, and potentially marketing, selling and distributing approved pharmaceuticals. Both the scope and timing of the company's future capital requirements will depend on several factors, including costs for ongoing and future preclinical and clinical studies, as well as the results from these studies, including milestone and royalty payments.

There is a future risk that a further need of financing will arise, for example, by raising loans, sales of assets or through further rights issues of shares or other securities. The access to and conditions for further financing are affected by several factors, such as the possibility of entering partnerships and the extent to which research and development projects progress successfully, market conditions, general availability of credit and Active Biotech's credit worthiness and credit capacity. Disruptions and uncertainty in the credit and capital markets may also limit access to additional capital. There is a risk that, going forward, Active Biotech will not have sufficient revenue or positive cash flow to maintain its operations in their current form. Such developments would involve materially negative effects for the company's operations and financial position.

ENVIRONMENTAL INFORMATION

Active Biotech conducts its operations in accordance with the permits issued for the company by the authorities. Inspections conducted achieved fully 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
- sale of the company's property
- business development projects
- strategic focus
- information concerning financial statements
- budget 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 32-35. 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

These guidelines encompass remuneration of senior executives. Senior executives are defined as the President & CEO and other members of Group management. The guidelines apply to remuneration agreed, and changes made to existing agreed remuneration, when the guidelines have been adopted by the 2020 AGM. The guidelines do not cover remuneration resolved by the AGM.

The guidelines promotion of the company's business strategy, long-term interests and sustainability

The most important parts of the company's business strategy are:

- Achieve the greatest possible growth in value in each project and seek collaboration with strong partners not later than completed Phase II studies
- Progress the clinical development and commercialization of the company's selected compounds together with partners with relevant expertise
- Limit costs through the utilization of partnership agreement and external expertise
- Protect know-how through an active patent strategy
- Create financial sustainability through partnerships with licensees and shareholders

For additional information concerning the company's business strategy, see link.

The successful implementation of the company's business strategy and safeguarding the company's long-term interests, including its sustainability, requires the company to recruit and retain qualified employees. To ensure this, the company must offer competitive remuneration. These guidelines enable the payment of a competitive total remuneration to senior executives.

The long-term share-based incentive program proposed by the Board for resolution by the 2020 AGM will be decided by the AGM and is therefore not covered by these guidelines.

Variable cash payments covered by these guidelines should aim to promote the company's business strategy and long-term interests, including its sustainability.

Forms of remuneration, etc.

Remuneration is to be market-based and may include the following components: fixed cash salary, variable cash payments, pension benefits and other benefits. The AGM can in addition – and regardless of these guidelines– resolve on, for example, share and share-based remuneration.

Variable cash payments may not exceed 50 percent of the fixed annual cash salary for the President & CEO and 25 percent for other members of Group management. Variable cash payments are not pensionable.

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 annual salary.

Other benefits may include medical and health care and company cars. In total, such benefits may not exceed 10 percent of annual cash salary.

Termination of employment

Upon termination by the company, the notice period must be at most 12 months for the President & CEO and for other members of Group management. If notice is given by a senior executive, the notice period must be at most 12 months, without entitlement to severance pay.

Criteria for awarding variable cash payments, etc.

Variable cash payments are to be linked to predetermined and measurable criteria, which may be financial or non-financial. They may also be personalized quantitative or qualitative goals. The criteria are to be designed to promote the company's business strategy and long-term interests, including its sustainability, for example by having a clear link to the business strategy or by promoting the long-term development of the senior executive.

The degree to which the criteria were met is determined when the measurement period to fulfill the criteria set for payment of the variable cash payments has ended. The Board is responsible for assessing variable cash payments to the President & CEO. The President & CEO is responsible for assessing variable cash payments to other executives. As regards financial targets, the assessment is based on the most recent financial information published by the company.

Salary and terms of employment

When preparing the Board's proposal for these remuneration guidelines, salary and terms of employment for the company's employees have been taken into account by including information about the employees' total remuneration, the components of the remuneration and the growth and rate of growth over time of remuneration in the Board's decision documentation when assessing the fairness of the guidelines and the limitations that arise from these.

Decision-making process to determine, review and implement the guidelines

The Board's decides on proposed guidelines for remuneration of senior executives. The Board is to prepare proposals for new guidelines at least once every three years and present these proposals for a decision by the AGM. The guidelines are to apply until new guidelines are adopted by the AGM. The Committee also monitors and evaluates the program for variable remuneration of executive management and the application of the guidelines for remuneration of senior executives in addition to remuneration structures and remuneration levels. The Board members are independent in relation to the company and executive management. The President & CEO or other members of executive management are not present when the Board addresses and decides on matters concerning remuneration relating to one of the aforementioned individuals.

Deviation from the guidelines

The Board may only approve temporary deviation from the guidelines, partially or entirely, in individual cases with particular grounds and when deviation is necessary to satisfy the company's long-term interests, including its sustainability, or to ensure the company's financial

viability. As specified above, the duties of the Board include preparing for decisions on remuneration issues, which also includes decisions regarding deviations from the guidelines.

Description of significant changes to the guidelines and how shareholder viewpoints are to be taken into consideration

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

The company has not approved any deviations from the guidelines for remuneration adopted by the 2019 AGM.

EVENTS AFTER THE BALANCE-SHEET DATE

- On February 5, 2020, Active Biotech announced that the Board had approved a new direction for the company

Impact of COVID-19

The COVID-19 pandemic is affecting us all. There is a great uncertainty about the spread of the virus and its effects and the authorities in Sweden and in most other countries have imposed restrictions on events, travel and business activities. Active Biotech's priority in the current situation is to ensure the well-being and safety of our employees, patients and partners. Therefore, we are taking the necessary precautions with regard to COVID-19 and will continue to monitor its spread and subsequent actions carefully.

We, together with business partners, have ongoing clinical trials and clinical trials planned to start. Global measures against COVID-19 and the need to prioritize health care resources are likely to affect the timelines of these studies. This means that the timing of the initial results of the ongoing Phase Ib/II study with naptumomab in patients with solid tumors and the onset of the planned Phase Ib/IIa study with tasquinimod in multiple myeloma may be affected. In light of the rapidly developing situation with the COVID-19 virus, the timelines are still subject to change and we will provide updates as needed.

OUTLOOK FOR 2020

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 agreement entered into with NeoTX in 2016 will have an impact on the company's future revenues and financial position if naptumomab progress in development. NeoTX initiated the clinical development of naptumomab in combination with a checkpoint inhibitor during 2019, and results are expected during 2021.

In February 2020, the new focus of the company was presented which means tasquinimod will be advanced, as an immunomodulatory product with a novel mechanism of action for the treatment of multiple myeloma. Laquinimod will be advanced as an immunomodulatory product with a novel mechanism of action for use as a topical agent in inflammatory eye diseases and as an oral treatment of patients with Crohn's disease.

The company' new strategy aims at advancing these projects in well-defined focus areas by leveraging existing results in combination with smaller proof-of-concept or confirmatory Phase II studies to enable early and cost-effective value crystallization for Active Biotech through partnering/out-licensing.

Active Biotech's project portfolio will then comprise naptumomab, in clinical Phase Ib for the treatment of solid tumors partnered to NeoTX, and the new clinical and preclinical programs for tasquinimod and laquinimod.

At year-end 2019, available cash is scheduled to finance ongoing activities in the new direction through 2020 and 2021. In addition, Active Biotech is evaluating corporate development opportunities to broaden the shareholder base, and to strengthen the project portfolio.

ALLOCATION OF PROFIT/LOSS

SEK	
Profit brought forward	64,279,116
Loss for the year	-32,594,550
Total	**31,684,566**

Financial statements

CONSOLIDATED INCOME STATEMENT

January 1 – December 31

SEK thousands	Note	2019	2018
Net sales	2	8,425	20,051
Administrative expenses	3, 4	-12,237	-10,576
Research and development costs	3	-28,473	-39,316
Operating loss	**5**	**-32,285**	**-29,841**
Financial income		89	29
Financial expenses		-1,936	-7,066
Net financial expense	**6**	**-1,847**	**-7,037**
Loss before tax		**-34,132**	**-36,878**
Tax	7	–	–
Loss for the year		**-34,132**	**-36,878**
LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Parent Company's shareholders		-34,132	-36,878
Non-controlling interests		–	–
EARNINGS PER SHARE	**14**		
before dilution (SEK)		-0.24	-0.27
after dilution (SEK)		-0.24	-0.27

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

January 1 – December 31

SEK thousands	Note	2019	2018
Loss for the year		**-34,132**	**-36,878**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income for the year		–	–
COMPREHENSIVE INCOME FOR THE YEAR		**-34,132**	**-36,878**
COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Parent Company's shareholders		-34,132	-36,878
Non-controlling interests		–	–

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31

SEK thousands	Note	2019	2018
ASSETS			
Equipment, tools, fixtures and fittings	8	–	1,266
Leased assets	9	3,190	–
Long-term receivables		1	1
Total fixed assets		**3,191**	**1,267**
Accounts receivable		838	210
Tax assets		460	582
Assets held for sale	10	–	271,750
Other receivables	11	1,061	1,150
Prepaid expenses and accrued income	12	1,723	1,920
Cash and cash equivalents	22	59,681	25,552
Total current assets		**63,763**	**301,164**
TOTAL ASSETS		**66,954**	**302,431**

SEK thousands	Note	2019	2018
SHAREHOLDERS' EQUITY			
Share capital		750	750
Other capital contributed		3,311,868	3,311,868
Reserves		–	88,889
Profit/loss brought forward including loss for the year		-3,258,835	-3,313,592
Total shareholders' equity	**13**	**53,783**	**87,915**
LIABILITIES			
Other long-term interest-bearing liabilities	15	2,001	104
Total long-term liabilities		**2,001**	**104**
Short-term interest-bearing liabilities	15	1,252	204,246
Accounts payable		5,598	3,988
Tax liabilities		34	34
Other liabilities	16	257	329
Accrued expenses and deferred income	17	4,029	5,815
Total short-term liabilities		**11,170**	**214,412**
TOTAL LIABILITIES		**13,171**	**214,516**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**66,954**	**302,431**

For information pertaining to the Group's pledged assets and contingent liabilities, see Note 20.

CONSOLIDATED STATEMENT OF CASH FLOWS

January 1 – December 31

SEK thousands	Note 22	2019	2018
Operating activities			
Loss before tax		-34,132	-36,878
Adjustments for non-cash items		867	447
Cash flow from operating activities before changes in working capital		**-33,265**	**-36,431**
Cash flow from changes in working capital			
Increase(-)/Reduction(+) in operating receivables		-2,300	1,335
Increase(+)/Reduction(-) in operating liabilities		-248	-5,551
Cash flow from operating activities		**-35,813**	**-40,647**
Investing activities			
Divestment of tangible fixed assets		275,000	–
Cash flow from investing activities		**275,000**	**–**
Financing activities			
Rights issue		–	48,410
Issue expenses		–	-1,294
Amortization of loans		-204,053	-5,380
Amortization of lease liabilities		-1,005	-689
Cash flow from financing activities		**-205,058**	**41,047**
Cash flow for the year		**34,129**	**400**
Cash and cash equivalents, January 1		**25,552**	**25,152**
Exchange-rate differences in cash and cash equivalents		**–**	**–**
CASH AND CASH EQUIVALENTS AT YEAR-END		**59,681**	**25,552**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

SEK thousands	Share capital	Other capital contributed	Revaluation reserve	Profit/loss brought forward incl. loss for the year	Total shareholders' equity
Opening shareholders' equity, January 1, 2018	**500**	**3,265,002**	**88,889**	**-3,276,714**	**77,677**
Loss for the year	–	–	–	-36,878	-36,878
Other comprehensive income for the year	–	–	–	–	–
Comprehensive income for the year	**–**	**–**	**–**	**-36,878**	**-36,878**
Rights issue[1)]	250	46,866	–	–	47,116
Closing shareholders' equity, December 31, 2018	**750**	**3,311,868**	**88,889**	**-3,313,592**	**87,915**
Opening shareholders' equity, January 1, 2019	**750**	**3,311,868**	**88,889**	**-3,313,592**	**87,915**
Loss for the year	–	–	–	-34,132	-34,132
Other comprehensive income for the year	–	–	–	–	–
Comprehensive income for the year	**–**	**–**	**–**	**-34,132**	**-34,132**
Transfer from revaluation reserve	–	–	-88,889	88,889	–
Closing shareholders' equity, December 31, 2019	**750**	**3,311,868**	**–**	**-3,258,835**	**53,783**

[1)] The rights issue amount for 2018 was recognized net after deductions for transaction costs of SEK 1,294 thousand.

PARENT COMPANY INCOME STATEMENT

January 1 – December 31

SEK thousands	Note	2019	2018
Net sales	2	**8,322**	**23,214**
Administrative expenses	3, 4	-12,312	-10,859
Research and development costs	3	-28,691	-47,177
Operating loss	5	**-32,681**	**-34,822**
Profit/loss from financial items			
Interest income and similar items	6	89	29
Interest expenses and similar items	6	-2	-102
Loss after financial items		**-32,594**	**-34,895**
Loss before tax		**-32,594**	**-34,895**
Tax	7	–	–
Loss for the year		**-32,594**	**-34,895**

STATEMENT OF COMPREHENSIVE INCOME, PARENT COMPANY

January 1 – December 31

SEK thousands	2019	2018
Loss for the year	**-32,594**	**-34,895**
Other comprehensive income	–	–
Comprehensive income for the year	**-32,594**	**-34,895**

PARENT COMPANY BALANCE SHEET

At December 31

SEK thousands	Note	2019	2018
ASSETS			
Fixed assets			
Financial fixed assets			
Participations in Group companies	21	40,500	40,500
Other long-term receivables		1	1
Total financial fixed assets		**40,501**	**40,501**
Total fixed assets		**40,501**	**40,501**
Current assets			
Short-term receivables			
Accounts receivable		634	176
Receivables from Group companies		–	5,961
Tax assets		460	582
Other receivables	11	520	1,150
Prepaid expenses and accrued income	12	1,723	1,920
Total short-term receivables		**3,337**	**9,789**
Short-term investments	22	55,634	20,632
Cash and bank balances	22	3,796	3,572
Total current assets		**62,767**	**33,993**
TOTAL ASSETS		**103,268**	**74,494**

SEK thousands	Note	2019	2018
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Restricted equity			
Share capital		750	750
Unrestricted equity			
Share premium reserve		–	46,866
Profit brought forward		64,279	52,308
Loss for the year		-32,594	-34,895
Total shareholders' equity	13	**32,435**	**65,029**
Short-term liabilities			
Accounts payable		5,598	3,988
Liabilities to Group companies		60,949	–
Other liabilities	16	257	303
Accrued expenses and deferred income	17	4,029	5,174
Total short-term liabilities		**70,833**	**9,465**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**103,268**	**74,494**

For information pertaining to Parent Company's pledged assets and contingent liabilities, see Note 20.

CASH-FLOW STATEMENT FOR THE PARENT COMPANY

January 1 – December 31

SEK thousands	Note 22	2019	2018
Operating activities			
Loss after financial items		-32,594	-34,895
Adjustments for non-cash items		–	–
Cash flow from operating activities before changes in working capital		**-32,594**	**-34,895**
Cash flow from changes in working capital			
Increase(-)/Reduction(+) in operating receivables		6,452	-4,437
Increase(+)/Reduction(-) in operating liabilities		61,368	-4,765
Cash flow from operating activities		**35,226**	**-44,097**
Financing activities			
Rights issue		–	48,410
Issue expenses		–	-1,294
Cash flow from financing activities		**–**	**47,116**
Cash flow for the year		**35,226**	**3,019**
Cash and cash equivalents, January 1		**24,204**	**21,185**
CASH AND CASH EQUIVALENTS AT YEAR-END		**59,430**	**24,204**

STATEMENT OF CHANGES IN PARENT COMPANY'S EQUITY

SEK thousands	Note 13	Restricted equity			Unrestricted equity			Total shareholders' equity
		Share capital	Revaluation reserve	Statutory reserve	Share premium reserve	Profit/loss brought forward	Loss for the year	
Opening shareholders' equity, January 1, 2018		**500**	**–**	**–**	**–**	**179,100**	**-126,792**	**52,808**
Rights issue[1)]		250	–	–	46,866	–	–	47,116
Loss for the year		–	–	–	–	–	-34,895	-34,895
Other comprehensive income for the year		–	–	–	–	–	–	–
Comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**-34,895**	**-34,895**
Treatment of profit/loss in preceding year		–	–	–	–	-126,792	126,792	–
Closing shareholders' equity, December 31, 2018		**750**	**–**	**–**	**46,866**	**52,308**	**-34,895**	**65,029**
Opening shareholders' equity, January 1, 2019		**750**	**–**	**–**	**46,866**	**52,308**	**-34,895**	**65,029**
Loss for the year		–	–	–	–	–	-32,594	-32,594
Other comprehensive income for the year		–	–	–	–	–	–	–
Comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**-32,594**	**-32,594**
Treatment of profit/loss in preceding year		–	–	–	-46,866	11,971	34,895	–
Closing shareholders' equity, December 31, 2019		**750**	**–**	**–**	**–**	**64,279**	**-32,594**	**32,435**

[1)] The rights issue amount was recognized net after deductions for transaction costs of SEK 1,294 thousand.

Notes to the financial statements

NOTE 1: SIGNIFICANT 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 22, 2020. 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 19, 2020.

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 certain financial assets, which are measured at fair value. Financial assets measured at fair value comprise 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 23.

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

Changed accounting policies caused by new or amended IFRS

The Group applies IFRS 16 for the first time as of January 1, 2019. Other amendments to IFRS applicable from January 1, 2019 did not have any material impact on the consolidated financial statements.

The Group has elected to apply the modified retrospective approach on adoption, which means the comparative period has not been restated in accordance with IFRS 16.

IFRS 16 Leases

Active Biotech applies IFRS 16 Leases as of January 1, 2019.

IFRS 16 introduces a single lessee accounting model. A lessee recognizes a right-of-use asset that represents a right to use an underlying asset and a lease liability that represents the obligation to make lease payments. There are exemptions for short-term leases and leases where the underlying asset has a low value. Accounting for lessors

is similar to IAS 17, meaning that the lessor continues to classify leases as finance or operating leases.

Definition of leases

The Group previously established whether an agreement contained leases according to IFRIC 4 Determining Whether an Arrangement Contains a Lease. As of January 1, 2019, the Group assesses whether an agreement contains leases on the basis of the definition of leases in IFRS 16.

Leases for which the Group is lessee

The Group previously classified leases as operating or finance leases based on whether the lease transferred the significant risks and rewards that ownership of the underlying asset generates for the Group. Operating leases were not recognized as assets and liabilities in the statement of financial position and a lease/rent liability was recognized on a straight-line basis over the term of the lease. According to IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most leases, even leases previously classified as operating, and amortization/depreciation and interest expenses are recognized in the statement of profit and loss and other comprehensive income. An exception has been applied for the leases referred to below with a remaining term of less than 12 months and for leases with a low value (underlying asset value of <SEK 50 thousand).

Leases previously classified as operating leases in accordance with IAS 17

On adoption, lease liabilities were measured at the present value of the remaining lease payments, discounted by the Group's incremental borrowing rate on the date of initial application (January 1, 2019).

Right-of-use assets were measured at the amount of the lease liability on adoption adjusted for any prepaid or accrued lease payments. The Group applies this method for all leases in place on transition to IFRS 16.

The Group has chosen to apply the following exemption rules for previous operating leases on transition to IFRS 16.

- Right-of-use assets and lease liabilities have not been recognized on leases for which the lease term ends within 12 months or earlier after the date of initial recognition (short-term leases).

Leases previously classified as finance leases

For recognition of previous finance leases, see below under "Impact on the financial statements."

Leases for which the Group is lessor

Active Biotech was a lessor before the divestment of the Group's property, see below under "Impact on the financial statements." The transition to IFRS 16 has not given rise to any adjustments for the Group as lessor

Impact on the financial statements

The effects of IFRS 16 are limited for Active Biotech. The Group reports new assets and liabilities for leases in respect of cars and office equipment and for the Group's rental agreement. Costs for these leases have changed since the Group now recognizes depreciation for the right-of-use assets and interest expenses for lease liabilities. The Group previously recognized operating lease costs over the lease term and recognized assets (prepaid lease payments) and liabilities (accrued lease payments) only to the extent that there was a difference between the actual lease payments and the recognized cost.

Low-value leases – which mainly comprise computers, printers/photocopiers and coffee machines – are not included in the lease liability and instead are expensed straight-line over the lease term. The existence of leases with a term of less than 12 months ("short-term leases") is not deemed to be significant in the Group.

On transition to IFRS 16, the Group recognized right-of-use assets of SEK 890 thousand and lease liabilities of SEK 1,091 thousand. The leases concern cars and office equipment. In measurement of the lease liability, the Group discounted lease payments to the incremental borrowing rate as of January 1, 2019. The weighted average rate used is 3 percent. Reconciliation for leases in the 2018 Annual Report compared with lease liabilities according to IFRS 16 is presented in the table below (SEK thousands):

Operating lease Dec. 31, 2018 according to disclosures provided in the annual report	960
Discounted incremental interest rate at January 1, 2019	**854**
Less: Short-term leases	-60
Additions: Recognized finance lease liabilities as per Dec. 31, 2018	297
Total lease liabilities at January 1, 2019	**1,091**

Lease liability for leases previously classified as finance leases was, in accordance with the transition provisions in IFRS 16, in the initial amounts for 2019 as set out above, recognized at the same amount at the end of 2018.

The company's property was classified at the start of the fiscal year as "Asset held for sale," which means that its carrying amount was expected to be recovered primarily through its sale and not through its use. The property was divested on April 5, 2019 to the property company Estea Forskaren PropCo AB. As of July 1, Active Biotech rents offices in the divested property. The Group's new rental contract has, since the third quarter, been reported in accordance with IFRS 16, which increased right-of-use assets by SEK 3,297 thousand and lease liabilities by SEK 3,297 thousand.

In the balance sheet on January 1, 2019, right-of-use assets are recognized in an amount of SEK 890 thousand, of which SEK 794 thousand arising from the adoption of IFRS 16. Lease liabilities are recognized in an amount of SEK 1,091 thousand, of which SEK 794 thousand arising from the adoption of IFRS 16. Of the lease liabilities of SEK 1,091 thousand, SEK 368 thousand is related to short-term lease liabilities. The introduction of IFRS 16 had no material impact on recognized earnings for the period.

New IFRS that have not yet been applied

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

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.

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.

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

Consolidated net sales currently comprise service revenues and revenue from research services. Furthermore, the Group has a contract with its partner NeoTX under which Active Biotech is entitled to remuneration if the partner achieves certain milestones and to royalties on future sales. Until April 5, 2019, when the Group's property was divested, consolidated net sales also included rental revenues.

Rental revenues

Rental revenues from rental of premises in the Group's property are recognized straight-line based on the terms of the lease. Rental revenues ceased following the divestment of the Group's property.

Service revenues

Service revenues are attributable to the remuneration that the Group received from the tenants for providing a manned reception, cleaning and postal services, etc. until April 5, 2019, when the Group's property was divested. After that date, service revenues are attributable to the service agreement the Group signed with the property company Estea Forskaren PropCo AB in conjunction with the divestment of the Group's property. Revenues from services are to be recognized over time in the periods in which the services are performed since the customer uses the services in line with Active Biotech providing them.

Revenues from research services

Revenues from research services pertain to remuneration for research conducted on behalf of external parties. Revenues from research services are recognized at a point in time, which is when the ordered services have been completed according to the contract with the customers.

Contract with NeoTX

Active Biotech has a contract with its partner NeoTX under which the Group has licensed the rights to Naptumomab. This contract gives Active Biotech the right to milestone payments upon certain clinical, regulatory and commercial achievements by NeoTX. The contract also includes the right for Active Biotech to receive tiered double-digit royalties on future sales. Milestone payments comprise variable consideration under IFRS 15. Since there is a significant risk of reversal of revenue from milestone payments prior to the time at which a milestone is achieved, revenue recognition does not take place until it has been established that NeoTX has achieved the set target and that Active Biotech thus has the right to receive such a contractual milestone payment. Revenue from sales-based royalties is first recognized in connection with NeoTX selling the approved drug based on Naptumomab and Active Biotech having the right to receive contractual milestone payment.

Leases

Principles applied from January 1, 2019

When a contract is signed, the Group considers whether the agreement is, or contains, a lease. An agreement is, or contains, a lease if the agreement transfers the right to control the use of an identified asset for a period of time in exchange for consideration.

At the start of the lease, or when reviewing a lease that contains several components – lease and non-leasing components – the Group allocates remuneration in accordance with the agreement to each component based on the stand-alone price. For property leases when the Group is lessee, the Group has, however, chosen not to distinguish between non-lease components and recognizes lease and non-lease components paid in fixed amounts as a single lease component.

Leases for which the Group is lessee

The Group recognizes a right-of-use asset and a lease liability at the lease's commencement date. The right-of-use asset is initially measured at cost, which comprises the lease liability's initial value plus the lease payments made at or before the commencement date and any initial direct costs. The right-of-use asset is depreciated on a straight-line basis from the commencement date to the earlier of the end of the assets useful life or the end of the lease term, which for the Group is normally the end of the lease term. In rare cases, when the cost of the right-of-use asset reflects that the Group will exercise an option to purchase the underlying asset, then the asset is depreciated by the end of its useful life.

The lease liability – which is split into a long and short-term portion – is initially measures at the present value of remaining lease payments during the expected lease term. The lease term comprises the non-cancellable term plus additional periods in the agreement if it is deemed reasonably certain on the commencement date that these will be exercised.

Lease payments are normally discounted using the Group's incremental borrowing rate, which in addition to the Group's/company's credit risk also reflects each agreement's lease term, currency and quality of the underlying asset as intended security. However, the interest rate implicit in the lease is used when this can be determined.

Lease liability consists of the present value of the following payments during the expected lease term:

- fixed payments, including in-substance fixed payments,
- variable lease payments linked to indexes or price ("rate"), initial measurement using the index or price ("rate") applied on the commencement date,
- any residual value guarantees to be paid,
- the exercise price of a purchase option if it is reasonably certain that the Group will exercise such an option, and
- penalties to be paid for terminating the lease if the expected lease term reflects that such a termination will take place.

The amount of the liability increases by the interest expense for each period and is reduced by lease payments. The interest expense is measured as the liability's value times the discount rate.

The lease liability for the Group's premises with a rent that is indexed upward is calculated on the rent payable at the end of each reporting period. At this time, the liability is adjusted with a corresponding adjustment of the right-of-use asset's carrying amount. In a similar way, the value of the liability and asset is adjusted in conjunction with the reassessment of the lease term. This occurs when the last termination date has passed for the previously expected term of the premises lease, or when significant events occur or conditions are substantially changed in a manner that is within the Group's control and influences the applicable assessment of the lease term.

The Group presents right-of-use assets as a separate item in the statement of financial position. Lease liabilities are presented together with interest-bearing liabilities in the statement of financial position.

No right-of-use asset and lease liability is recognized for leases with a lease term of 12 months or less and for low value assets, less than SEK 50 thousand. Lease payments for these leases are recognized as a cost straight-line over the lease term.

Leases for which the Group is lessor

When the Group is lessor, it determines on the commencement date of each lease whether the lease is to be classified as a finance or operating lease.

In determining the classification, an overall assessment is conducted of whether the lease in all material respects transfers the financial risks and rewards associated with ownership of the underlying asset. Where this is the case, the lease is a finance lease, otherwise it is an operating lease. The Group takes several indicators into consideration in this assessment. Such indicators include whether the lease term constitutes a larger share of the asset's economic life or whether ownership of the underlying asset is transferred to the lessee when the lease expires.

The Group recognizes lease payments from operating leases as revenue on a straight-line basis over the lease term, as part of the item net sales.

Principles applied until December 31, 2018

Leases were classified in the consolidated financial statements as either finance or operating leases. Finance leases existed when the financial risks and benefits associated with ownership were essentially transferred to the lessee. If this was not the case, the lease was considered to be an operating lease.

Assets leased through finance leases were recognized as assets in the consolidated statement of financial position. The commitment to pay future lease payments was recognized as long-term and short-term liabilities. These assets were depreciated over the contractual leasing period while lease payments were recognized as interest and amortization of liabilities.

Lease payments for operating leases were expensed straight-line over the term of the lease based on the value in use, which may have differed from that which had actually been paid as a leasing fee during the year.

Financial income and expenses

Financial income and expenses include interest income on bank deposits and receivables, interest expenses on loans, interest on the lease liability, exchange-rate differences and unrealized and realized gains from financial investments.

Interest income on receivables and interest expenses on liabilities are calculated using the effective interest method. Effective interest is the interest that exactly discounts estimated future receipts and payments during the anticipated duration of the financial instrument to a financial asset's recognized gross amount or a financial liability's amortized cost.

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

Exchange-rate gains and losses are netted.

Financial instruments

Financial instruments recognized on the asset side of the statement of financial position include cash and bank balances, accounts receivable, other long-term receivables and short-term investments in fixed-income funds. Liabilities include accounts payable, liabilities for leases, liabilities to credit institutions and other financial liabilities.

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.

Measurement on initial recognition

Financial instruments are initially measured at fair value plus/less transaction costs, except instruments that are continuously measured at fair value through profit or loss for which transaction costs are expensed when they arise instead. Accounts receivable (except for significant financing components) are initially measured at the transaction price established according to IFRS 15.

Classification and subsequent measurement of financial assets

The Group's holdings of short-term fixed-income funds are measured at fair value through profit or loss since the fund units do not satisfy the criteria for equity instruments and the cash flows from the funds do not contain solely payments of principal and interest on the principal amount.

All other financial assets are measured at amortized cost since they are held under the framework of a business model whose objective is to collect the contractual cash flows, at the same time as the cash flows from the assets comprise solely payments of principal and interest on the principal amount. Other receivables are classified as long-term receivables if the duration is longer than one year, and if it is shorter, as other receivables.

Classification and subsequent measurement of financial liabilities

All financial liabilities are measured at amortized cost by applying the effective interest method. 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 was 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 remained after the reclassification as "Assets held for sale." It was transferred to profit/loss brought forward when the asset was divested in April 2019, 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.

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. Leased assets are also depreciated over the estimated useful life or, if shorter, over the contractual leasing period.

Estimated useful life of:

- Equipment, tools, fixtures and fittings: 3–10 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 pos-

sible 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

Impairment testing of tangible and intangible assets and participations in subsidiaries and associated companies

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

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 financial assets

A loss allowance is calculated and recognized for the financial assets that are measured at amortized cost. A simplified approach is applied for accounts receivable and the loss allowance is calculated and recognized based on expected credit losses for the full remaining lifetime. The calculation of the expected credit losses is primarily based on information about past losses for similar receivables and counterparties. The historical information is evaluated and continuously adjusted based on the current situation and the Group's expectations regarding future events.

Non-current assets held for sale

The Group's property was, until the property was divested on April 5, 2019, classified 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 2019 and 2018 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 policiesUnless otherwise stated below, the Parent Company's accounting policies in 2019 have changed in line with what is described above for the Group.

The new principles for leases, in accordance with IFRS 16, put into effect by the Group are not applied by the Parent Company. The Parent Company applies an exemption clause in RFR 2, which means the Parent Company recognizes existing leases in the same manner as in previous years.

New IFRS that have not been applied

Other new or amended IFRS, including statements, are not expected to have any material impact 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 costs 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 IFRS 9 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

The Parent Company does not apply IFRS 16, in accordance with the exception in RFR 2. As lessee lease payments are recognized as a cost on a straight-line basis over the lease term and right-of-use assets and lease

liabilities are therefore not recognized in the balance sheet. In the same manner as in the consolidated financial statements, lease and non-lease components are not divided for properties. Instead, lease and non-lease components are recognized as a single lease component for these types of underlying assets. Agreements when the Parent Company is the lessor are recognized as operating leases.

Intangible fixed assets

Research and development

In the Parent Company, all expenses for development are recognized as expenses in profit or loss.

Depreciation 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

SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
Research services	–	1,105	–	1,105
Rental revenues	4,889	16,043	–	–
Service revenues	3,303	2,903	3,303	2,903
Property services	–	–	4,786	19,206
Other	233	–	233	–
Total	**8,425**	**20,051**	**8,322**	**23,214**

NOTE 3: OPERATING EXPENSES DISTRIBUTED BY TYPE OF COST

SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
Personnel costs	18,214	19,782	18,445	19,782
Depreciation/amortization	867	447	—	—
Impairment	264	—	127	—
Operating expenses	2,944	4,464	2,865	4,462
Property expenses	3,212	16,991	4,357	25,584
Administrative expenses	1,419	1,059	1,419	1,059
External R&D services	7,859	5,666	7,859	5,666
Other external services	5,931	1,483	5,931	1,483
Total	**40,710**	**49,892**	**41,003**	**58,036**

NOTE 4: AUDITORS' FEES

SEK thousands	Group and Parent Company	
	2019	2018
KPMG AB		
Auditing assignments	370	450
Audit activities other than auditing assignment	4	9
Other services	44	18
Tax consultancy services	58	–

NOTE 5: EMPLOYEE AND PERSONNEL COSTS, AND REMUNERATION OF SENIOR EXECUTIVES

Costs for remuneration of employees

SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
Salaries and remuneration, etc. [3]	9,920	11,279	9,920	11,279
Pension costs, defined-contribution plans [1] [2] (see below)	3,686	4,104	3,686	4,104
Social-security costs [3]	2,959	3,101	2,959	3,101
Non-monetary remuneration	303	611		
Total	**16,868**	**19,095**	**16,565**	**18,484**

[1] Of the Parent Company's pension costs, SEK 1,626 thousand (1,296) pertains to the Board of Directors and President & CEO.
[2] The Group's pension costs include SEK 1.3 M (1.2) 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 0.0 M (0.2).

Average number of employees

	2019			2018		
	No. of employees	Of whom, women		No. of employees	Of whom, women	
PARENT COMPANY						
Sweden	12	6	(50%)	16	8	(50%)
Total Parent Company	**12**	**6**	**(50%)**	**16**	**8**	**(50%)**
SUBSIDIARIES						
Sweden	0	0	(0%)	0	0	(0%)
Group total	**12**	**6**	**(50%)**	**16**	**8**	**(50%)**

Gender distribution in management

	Of whom, women	
	2019	2018
PARENT COMPANY		
Board of Directors	0%	25%
Other senior executives	67%	67%
GROUP TOTAL		
Board of Directors	0%	25%
Other senior executives	67%	67%

Salaries and other remuneration subdivided by country and between senior executives and other employees, and social-security costs in the Parent Company

SEK thousands	2019			2018		
	Other senior executives (7 individuals)	Other employees	Total	Other senior executives (7 individuals)	Other employees	Total
Salaries and other remuneration						
Sweden	4,704	5,216	9,920	4,291	6,988	11,279
(of which, bonus and similar)	–	–	–	–	–	–
Total Parent Company	**4,704**	**5,216**	**9,920**	**4,291**	**6,988**	**11,279**
(of which, bonus and similar)	–	–	–	–	–	–
Social-security costs [1]	3,609	3,036	6,645	3,193	4,012	7,205
[1] of which, pension costs	2,394	1,292	3,686	2,093	2,011	4,104

Salaries and other remuneration, pension costs for senior executives in the Group

SEK thousands	2019	2018
	Other senior executives (7 individuals)	Other senior executives (7 individuals)
Salaries and other remuneration	4,704	4,291
(of which, bonus and similar)	–	–
Pension costs	2,394	2,093

The Chairman of the Board, Michael Shalmi, has also received consultant fees in 2019 of SEK 1.1 M in accordance with the ruling of the 2019 AGM.

Severance pay and loans to senior executives

No agreement exists covering severance pay or loans to Board members. The President & CEO has a period of termination notice of 12 months by the company and six months by the CEO. 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 2019 and 2018 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 1.3 M (1.2) and for 2020 the premiums will amount to SEK 1.2 M. Alecta's surplus can be allocated to the policyholders and/or the insured. At year-end 2019, Alecta's surplus at the collective funding ratio amounted to 148 percent (142). 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 0.00563 percent for 2019 and the share of the total actively insured in ITP2 amounted to 0.00207 percent in December 2019.

Remuneration of senior executives

Guidelines adopted at the Annual General Meeting on May 23, 2019

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.

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.

Remuneration and other benefits during 2019

SEK thousands	Basic salary/ Board fee	Variable remuneration	Salary exchange	Pension costs	Financial instruments	Other remuneration	Total
Chairman of the Board, Michael Shalmi [2) 4)]	333	–	–	–	–	–	333
Chairman of the Board, Mats Arnhög [1) 3)]	83	–	–	–	–	–	83
Board member, Magnhild Sandberg-Wollheim [1) 3)]	42	–	–	–	–	–	42
Board member, Uli Hacksell [1) 4)]	133	–	–	–	–	–	133
Board member, Peter Sjöstrand [1)]	175	–	–	–	–	–	175
Board member, Peter Thelin [1)]	175	–	–	–	–	–	175
CEO, Helén Tuvesson	1,572	–	525	1,101	–	–	3,198
Other senior executives (2 individuals)	2,191	–	457	311	–	–	2,959
Total	**4,704**	**–**	**982**	**1,412**	**–**	**–**	**7,098**

[1)] Apart from Board fees, no additional remuneration was paid.
[2)] Michael Shalmi has also received consultant fees in 2019 of SEK 1.1 M
[3)] For the period Jan.-May 2019
[4)] For the period May–Dec. 2019

Remuneration and other benefits during 2018

SEK thousands	Basic salary/ Board fee	Variable remuneration	Salary exchange	Pension costs	Financial instruments	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
CEO, Helén Tuvesson	1,321	–	394	902	–	–	2,617
Other senior executives (2 individuals)	2,345	–	457	340	–	–	3,142
Total	**4,291**	**–**	**851**	**1,242**	**–**	**–**	**6,384**

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

NOTE 6: NET FINANCIAL ITEMS

	Group		Parent Company	
SEK thousands	2019	2018	2019	2018
Interest income				
- Other interest income	–	–	–	–
Net gain on financial assets and liabilities measured at fair value through profit or loss				
- Held for trading: Short-term investments	2	–	2	–
Net exchange-rate changes	87	29	87	29
Financial income/Interest income and similar items	**89**	**29**	**89**	**29**
Interest expenses				
- Interest expenses relating to bank loans	-1,864	-6,934	–	–
- Interest expenses relating to finance leases	-70	-31	–	–
- Other interest expenses	-2	-5	-2	-6
Net loss on financial assets and liabilities measured at fair value through profit or loss				
Held for trading: Short-term investments	–	-96	–	-96
Net exchange-rate changes	–	–	–	–
Financial expenses/Interest expenses and similar items	**-1,936**	**-7,066**	**-2**	**-102**
Net financial expense	**-1,847**	**-7,037**	**87**	**-73**
Of which:				
Interest income from instruments measured at amortized cost	–	–		
Interest expenses from instruments measured at amortized cost	-1,936	-6,970		
Exchange-rate differences that impacted earnings				
Exchange-rate differences that impacted operating loss	-35	-38	-35	-38
Financial exchange-rate differences	87	29	87	29
Total	**52**	**-9**	**52**	**-9**

NOTE 7: TAXES

Recognized in profit or loss

SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
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 utilization of loss carryforwards previously capitalized	-24,386	-684	–	–
Deferred tax income attributable to sale of property	24,386	–	–	–
Deferred tax income attributable to depreciation of revaluation of property	–	684	–	–
Total recognized tax expense/income	**–**	**–**	**–**	**–**
Reconciliation of effective tax				
Loss before tax	-34,132	-36,878	-32,595	-34,895
Tax on the Parent Company according to current rate	7,509	8,114	7,171	7,677
Non-deductible expenses	-382	-342	-352	-342
Non-taxable revenues	168	157	168	157
Increase in loss carryforwards without equivalent capitalization of deferred taxes	-6,987	-7,492	-6,987	-7,492
Increase/decrease in temporary differences for which deferred tax is not recognized	-308	-437	–	–
Revaluation of deferred tax	–	–	–	–
Recognized effective tax	**–**	**–**	**–**	**–**

Tax items recognized directly in other comprehensive income

SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
Tax attributable to change in revaluation reserve	–	–	–	–

Tax items recognized directly in equity

SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
Tax attributable to change in revaluation reserve	–	–	–	–

Recognized in the statement of financial position deferred tax assets and liabilities

SEK thousands	Deferred tax assets		Deferred tax liabilities		Net	
	2019	2018	2019	2018	2019	2018
Tangible fixed assets	–	–	–	-24,386	–	-24,386
Loss carryforwards	–	24,386	–	–	–	24,386
Tax assets/liabilities	–	24,386	–	-24,386	–	–
Offsetting	–	-24,386	–	24,386	–	–
Tax assets/liabilities, net	**–**	**–**	**–**	**–**	**–**	**–**

Change in deferred tax in temporary differences and loss carryforwards

SEK thousands	Balance at Jan. 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	Balance at Dec. 31, 2019
Tangible fixed assets	-24,386	24,386	–	–	–
Loss carryforwards	24,386	-24,386	–	–	–
	–	**–**	**–**	**–**	**–**

Change in deferred tax in temporary differences and loss carryforwards

SEK thousands	Balance at Jan. 1, 2018	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	Balance at Dec. 31, 2018
Tangible fixed assets	-25,070	684	0	–	-24,386
Loss carryforwards	25,070	-684	–	–	24,386
	–	**–**	**–**	**–**	**–**

Due to the Group's activities with considerable research and development costs, it is not liable for tax. At the end of 2019, the Group's accumulated loss carryforwards amounted to SEK 3,366 M and was attributable to the Group's Swedish companies. The Parent Company's loss carryforwards amounted to SEK 3,366 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 3,366 M (3,221).

NOTE 8: EQUIPMENT, TOOLS, FIXTURES AND FITTINGS

Group

SEK thousands	Equipment, tools, fixtures and fittings recognized based on cost method	Total
Cost		
Opening balance, January 1, 2018	51,554	51,554
Closing balance, December 31, 2018	**51,554**	**51,554**
Opening balance, January 1, 2019	51,554	51,554
Disposal	-22,905	-22,905
Closing balance, December 31, 2019	**28,649**	**28,649**
Depreciation and impairment losses		
Opening balance, January 1, 2018	-49,841	-49,841
Depreciation for the year	-447	-447
Closing balance, December 31, 2018	**-50,288**	**-50,288**
Opening balance, January 1, 2019	-50,288	-50,288
Disposal	21,639	21,639
Closing balance, December 31, 2019	**-28,649**	**-28,649**
Carrying amounts		
January 1, 2018	1,713	1,713
December 31, 2018	1,266	1,266
January 1, 2019	1,266	1,266
December 31, 2019	–	–

Parent Company

SEK thousands	Equipment, tools, fixtures and fittings	Total
Cost		
Opening balance, January 1, 2018	21,330	21,330
Closing balance, December 31, 2018	**21,330**	**21,330**
Opening balance, January 1, 2019	21,330	21,330
Disposal	-18,273	-18,273
Closing balance, December 31, 2019	**3,057**	**3,057**
Depreciation and impairment losses		
Opening balance, January 1, 2018	-21,330	-21,330
Closing balance, December 31, 2018	**-21,330**	**-21,330**
Opening balance, January 1, 2019	-21,330	-21,330
Disposal	18,273	18,273
Closing balance, December 31, 2019	**-3,057**	**-3,057**
Carrying amounts		
January 1, 2018	–	–
December 31, 2018	–	–
January 1, 2019	–	–
December 31, 2019	–	–

Finance leases in the Group (refers to 2018)

The Group leases machines and other technical facilities under various finance lease 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, 2018, the carrying amount of property covered by finance leases was SEK 96 thousand. See also Note 15 Interest-bearing liabilities.

Operating leases in the Group (refers to 2018)

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 410 thousand, between one and five years SEK 550 thousand, and after five years SEK 0.

NOTE 9: LEASES

The Group's leases apply to rental agreements for premises, and leases for company cars and office equipment.

Right-of-use assets

SEK thousands	Properties	Vehicles	Total
Depreciation for the year	-550	-221	-771
Closing balance, December 31, 2019	2,748	442	3,190

Additional right-of-use assets in 2019 amounted to SEK 3,297 thousand

Lease liabilities

SEK thousands	Properties	Vehicles	Total
Current	1,031	221	1,252
Non-current	1,772	229	2,001
Lease liabilities included in the statement of financial position, Dec 31, 2019	**2,803**	**450**	**3,253**

For disclosures relating to the term/maturity analysis of the lease liabilities, see Note 19. All of the Group's total interest-bearing liabilities in 2019 pertain to lease liabilities, see Note 15.

Breakdown of amounts recognized in earnings

SEK thousands	Group 2019
Depreciation of right-of-use assets	-771
Interest on lease liabilities	-64
Variable lease payments not included in the measurement of the lease liability	-121
Costs for low-value leases	-16
Cost of short-term leases	-41

Amount recognized in statement of cash flows

SEK thousands	Group 2019
Total cash flows relating to leases	-1,864

The above cash outflow includes amounts for leases recognized as lease liabilities, and amounts paid for variable lease payments and low-value leases. See also Note 22.

Description of the Group's rental agreements

Lease of property

As of July 1, Active Biotech rents offices in the divested property. The Group's new rental contract has since the third quarter been reported in accordance with IFRS 16, which increased right-of-use assets by SEK 3,297 thousand and lease liabilities by SEK 3,297 thousand. The rental agreement consists of a non-cancellable period of three years, which is extended by additional periods of one year if the Group does not terminate the agreement with notice period of six months. Extension and termination options are exercisable only by the Group, not by the lessor. On the commencement date of the lease, it is established whether it is reasonably certain that an extension option will be exercised. It has been decided that it is not reasonably certain that another period will be exercised. The Group reassesses whether it is reasonably certain that an extension option will be exercised should any important events of material change occur in circumstances that are within the Group's control.

Rental expenses are adjusted on an annual basis using an escalation clause.

Lease of company cars

Active Biotech leases four company cars with a contract term of three years. The contract includes a fixed lease payment and a fee for a management package that covers service, repairs, tires etc. that is not part of the lease liability.

Lease of office equipment

Active Biotech has a rental agreement of 36 months for office equipment. This agreement is classified as a low-value lease.

NOTE 10: 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 property was divested in April 2019 for a purchase price of SEK 275 M.

Following reclassification, the Group recognized 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. At December 31, 2018, the property was valued by Thomas Ahlbeck Fastighetsekonomi AB at a market value in the range of SEK 260-300 M. Based on this valuation, the company assessed the market value to be SEK 275 M. The tax assessment value of the property was SEK 82.1 M.

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 2.0 percent annually
- 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 11: OTHER RECEIVABLES

	Group		Parent Company	
SEK thousands	2019	2018	2019	2018
VAT	869	607	328	607
Tax account	154	504	154	504
Other receivables	38	39	38	39
Total	**1,061**	**1,150**	**520**	**1,150**

NOTE 12: PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent Company	
SEK thousands	2019	2018	2019	2018
Prepaid rent	303	27	303	27
Prepaid insurance	258	535	258	535
Accrued income	251	96	251	96
Prepaid patenting expenses	457	173	457	173
Prepaid property expenses	–	264	–	264
Prepaid research and development costs	–	536	–	536
Other prepaid expenses and accrued income	454	289	454	289
Total	**1,723**	**1,920**	**1,723**	**1,920**

NOTE 13: SHAREHOLDERS' EQUITY

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

SEK thousands	2019	2018
Revaluation reserve, January 1	88,889	88,889
Revaluation of property	–	–
Tax effect of property revaluation	–	–
Transfer to profit/loss brought forward	-88,889	–
Tax effect of transfer to profit/loss brought forward	–	–
Revaluation reserve, December 31	**–**	**88,889**

Share capital Ordinary shares

Thousands of shares	2019	2018
Issued at January 1	145,236	96,824
Cash issue	–	48,412
Issued at December 31 – paid	**145,236**	**145,236**

Allocation of profit/loss

SEK	
Profit brought forward	64,279,116
Loss for the year	-32,594,550
Total	**31,684,566**

At December 31, 2019, the registered share capital comprised 145,236,480 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 2019 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.

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 14: EARNINGS PER SHARE

SEK	Before dilution		After dilution	
	2019	2018	2019	2018
Earnings per share	-0.24	-0.27	-0.24	-0.27

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 2019 was based on loss for the year attributable to the Parent Company's ordinary shareholders amounting to a loss of SEK 34,132 thousand (loss: 36,878) and on a weighted average number of shares outstanding during 2019 totaling 145,236,480 (137,492,381). The two components were calculated in the following manner:

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

SEK thousands	2019	2018
Loss for the year attributable to the Parent Company's shareholders	-34,132	-36,878

Weighted average number of outstanding ordinary shares, before dilution

Thousands of shares	2019	2018
Total number of ordinary shares at January 1	145,236	96,824
Effect of new share issues	–	40,668
Weighted average number of ordinary shares during the year, before dilution	**145,236**	**137,492**

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 15: INTEREST-BEARING LIABILITIES

Interest-bearing liabilities, Group

SEK thousands	2019	2018
Long-term liabilities		
Lease liability (2018: Finance lease liabilities)	2,001	104
Total	**2,001**	**104**
Short-term liabilities		
Short-term portion of bank loan	–	204,053
Short-term portion of lease liabilities (2018: finance lease liabilities)	1,252	193
Total	**1,252**	**204,246**

Finance lease liabilities in accordance with IAS 17

Finance lease liabilities fall due for payment as follows (2018):

SEK thousands	Amortization	Interest	Total payment
Within one year	193	8	201
Between one and five years	104	7	111
Later than five years	–	–	–
Total	**297**	**15**	**312**

Amortization due within one year is recognized as a short-term liability. Interest on finance leases is linked to the floating market interest rates.
For further information concerning interest and maturity structures, see Note 19.

NOTE 16: OTHER SHORT-TERM LIABILITIES

SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
Personnel tax at source	257	303	257	303
VAT	–	26	–	–
Total	**257**	**329**	**257**	**303**

NOTE 17: ACCRUED EXPENSES AND DEFERRED INCOME

SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
Accrued vacation liability, including social-security costs	1,567	1,791	1,567	1,791
Accrued employer's contributions	180	196	180	196
Other accrued personnel costs	1,058	1,301	1,058	1,301
Accrued Board fees, including social-security costs	924	771	924	771
Accrued auditors' fees	300	300	300	300
Accrued interest	–	641	–	–
Accrued property expenses	–	597	–	597
Accrued costs, redundancies	–	189	–	189
Other items	–	29	–	29
Total	**4,029**	**5,815**	**4,029**	**5,174**

NOTE 18: VALUATION OF FINANCIAL ASSETS AND LIABILITIES AT 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 finance leases 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.

The fair values and carrying amounts are recognized in the balance sheet below:

Group 2019

SEK thousands	Accounts and loan receivables	Financial assets/liabilities measured at fair value through profit or loss	Other financial liabilities	Total carrying amount
Other long-term receivables	1	–	–	1
Accounts receivable	838	–	–	838
Short-term investments	–	55,634	–	55,634
Cash and bank balances	4,047	–	–	4,047
Total	**4,886**	**55,634**	**–**	**60,520**
Long-term interest-bearing liabilities	–	–	2,001	2,001
Short-term interest-bearing liabilities	–	–	1,252	1,252
Accounts payable	–	–	5,598	5,598
Total	**–**	**–**	**8,851**	**8,851**

Group 2018

SEK thousands	Accounts and loan receivables	Financial assets/liabilities measured at fair value through profit or loss	Other financial liabilities	Total carrying amount
Other long-term receivables	1	–	–	1
Accounts receivable	210	–	–	210
Short-term investments	–	20,632	–	20,632
Cash and bank balances	4,920	–	–	4,920
Total	**5,131**	**20,632**	**–**	**25,763**
Long-term interest-bearing liabilities	–	–	104	104
Short-term interest-bearing liabilities	–	–	204,246	204,246
Accounts payable	–	–	3,988	3,988
Accrued expenses	–	–	641	641
Total	**–**	**–**	**208,979**	**208,979**

Disclosure regarding the determination of fair value

Group 2019

SEK thousands	Level 1	Level 2	Level 3	Total
Short-term investments – on a par with cash and cash equivalents		55,634		55,634

Group 2018

SEK thousands	Level 1	Level 2	Level 3	Total
Short-term investments – on a par with cash and cash equivalents		20,632		20,632

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 2019

SEK thousands	Accounts and loan receivables	Financial assets/liabilities measured at fair value through profit or loss	Other financial liabilities	Total carrying amount
Long-term receivables	1	–	–	1
Accounts receivable	634	–	–	634
Short-term investments	–	55,634	–	55,634
Cash and bank balances	3,796	–	–	3,796
Total	**4,431**	**55,634**	**–**	**60,065**
Accounts payable	–	–	5,598	5,598
Total	**–**	**–**	**5,598**	**5,598**

Parent Company 2018

SEK thousands	Accounts and loan receivables	Financial assets/liabilities measured at fair value through profit or loss	Other financial liabilities	Total carrying amount
Long-term receivables	1	–	–	1
Accounts receivable	176	–	–	176
Short-term investments	–	20,632	–	20,632
Cash and bank balances	3,572	–	–	3,572
Total	**3,749**	**20,632**	**–**	**24,381**
Accounts payable	–	–	3,988	3,988
Total	**–**	**–**	**3,988**	**3,988**

NOTE 19: 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 59,681 thousand (25,552) at December 31, was invested at a floating interest rate, which fluctuated between -1.7 and 1.1 percent (-0.7 and 0.4) 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 Group's financing sources mainly comprise shareholders' equity and liabilities for finance lease commitments. Previously there were also bank loans for financing of property holdings. Outstanding interest-bearing liabilities are recognized in Note 15 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 0.5 M (1.8).

Financing risk

Financing risk refers to the risk that financing of Active Biotech's capital requirements and refinancing of loans outstanding may be made more difficult or more expensive. After the sale of the Group's property, liabilities solely consist of lease liabilities. The company has no short-term loan financing in the form of overdraft facilities. Active Biotech ensures short-term payment preparedness by maintaining good liquidity preparedness in the form of cash.

The term analysis below presents the agreed, undiscounted cash flows for the Group's financial liabilities divided among the stated time intervals. The term of the bank loan for the property was until further notice, although the credit provider could terminate the agreement and demand payment with a two-month notice period. Pursuant to the requirements stipulated in IFRS 7, the liability was thus assigned a time interval of one to three months. The property was divested in April 2019 and the loan was repaid at that time.

Group 2019

SEK thousands	Nominal amount original currency	Total	Within 1 month	1–3 months	3 months – 1 year	1–2 years	2–3 years	3–4 years	4–5 years	5 years and longer
Lease liabilities, SEK		3,263	111	222	1,001	1,356	573	–	–	–
Accounts payable, SEK		1,747	1,570	177	–	–	–	–	–	–
Accounts payable, EUR	EUR 369 thousand	3,851	3,851	–	–	–	–	–	–	–
		8,851	**5,524**	**383**	**943**	**1,312**	**689**	**–**	**–**	**–**

Group 2018

SEK thousands	Nominal amount original currency	Total	Within 1 month	1–3 months	3 months – 1 year	1–5 years	5 years and longer
Bank loans, SEK		204,053	–	204,053	–	–	–
Finance lease liabilities, SEK		297	32	18	143	104	–
Accounts payable, SEK		3,988	3,988	–	–	–	–
Total		**208,338**	**4,020**	**204,071**	**143**	**104**	**–**

Maturity analysis, accounts receivable

SEK thousands	2019		2018	
	Carrying amount, unimpaired receivable	Collateral	Carrying amount, unimpaired receivable	Collateral
Accounts receivable, not due	514	–	210	–
Accounts receivable, due 0 – 30 days	5	–	–	–
Accounts receivable, due >30 days – 90 days	–	–	–	–
Accounts receivable, due >90 days – 180 days	–	–	–	–
Accounts receivable, due >180 days	319	–	–	–
	838	**–**	**210**	**–**

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 2019, foreign currencies accounted for 1 percent of revenues while the equivalent figure for operating expenses was 20 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 0.5 M (0.1) in relation to EUR and plus/minus SEK 0.3 M (0.1) 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 0.3 M (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.

NOTE 20: PLEDGED ASSETS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Pledged assets

SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
In the form of assets pledged for own liabilities and provisions				
Property mortgage	–	260,000	–	–
Assets with ownership reservation	–	297	–	297
Total	**–**	**260,297**	**–**	**297**
Other collateral provided and pledged assets				
Pension insurances	47,038	40,782	47,038	40,782
Total pledged assets	**47,038**	**301,079**	**47,038**	**41,079**
Contingent liabilities				
Guarantees for the benefit of Group companies	–	–	–	204,053
Total contingent liabilities	**–**	**–**	**–**	**204,053**

NOTE 21: GROUP COMPANIES

Holdings in subsidiaries

(SEK thousands)	Corp. Reg. No.	Registered office	No. of shares/ percentage	Nominal value	Carrying amount, Dec. 31, 2019	Carrying amount, Dec. 31, 2018
Active Forskaren 1 KB	969646-4677	Lund			40,000	40,000
Actinova AB	556532-8860	Lund	1,000 / 100%	100	50	50
Active Security Trading AB	556092-7096	Lund	400 / 100%	400	450	450
Total					**40,500**	**40,500**

Change in carrying amount of shares in subsidiaries

SEK thousands	2019	2018
Cost, January 1	40,550	40,550
Accumulated cost, December 31	**40,550**	**40,550**
Impairment, January 1	-50	-50
Impairment for the year	–	–
Accumulated impairment, December 31	**-50**	**-50**
Carrying amount, December 31	**40,500**	**40,500**

NOTE 22: SUPPLEMENTARY DATA TO THE CASH-FLOW STATEMENT

SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
Interest paid and dividends received				
Interest received	–	–	–	–
Interest paid	-2,497	-7,057	-1	-6
Total	**-2,497**	**-7,057**	**-1**	**-6**
Adjustments for non-cash items				
Depreciation/amortization and impairment of assets	867	447	–	–
Total	**867**	**447**	**–**	**–**
Transactions not involving payment				
Acquisition of assets through finance leases	3,297	–		
Cash and cash equivalents				
Cash and cash equivalents consist of the following components:				
Cash and bank balances	4,047	4,920	3,796	3,572
Short-term investments	55,634	20,632	55,634	20,632
Total	**59,681**	**25,552**	**59,430**	**24,204**

Reconciliation of liabilities deriving from financing activities, Group

SEK thousands	Closing balance, Dec. 31, 2018	Opening balance Jan. 1, 2019	Cash flows	Changes that do not affect cash flow		Closing balance, Dec. 31, 2019
				New leases	Exchange-rate differences	
Interest-bearing liabilities	204,053	204,053	-204,053	–	–	–
Lease liabilities	297	1,091	-1,005	3,167	–	3,253
Total liabilities deriving from financing activities	**204,350**	**205,144**	**-205,058**	**3,167**	**–**	**3,253**

SEK thousands	Closing balance, Dec. 31, 2017	Cash flows	Changes that do not affect cash flow		Closing balance, Dec. 31, 2018
			New leases	Exchange-rate differences	
Interest-bearing liabilities	209,433	-5,380	–	–	204,053
Lease liabilities	979	-682	–	–	297
Total liabilities deriving from financing activities	**210,412**	**-6,062**	**–**	**–**	**204,350**

NOTE 23: 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 assumptions regarding the company's financing and continued operation.

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 or revenues from collaboration agreements. 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 NeoTX Ltd regarding the development and commercialization of Naptumomab 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 24: EVENTS AFTER THE BALANCE-SHEET DATE

On February 5, 2020, Active Biotech announced that the Board had approved a new direction for the company

Impact of COVID-19

The COVID-19 pandemic is affecting us all. There is a great uncertainty about the spread of the virus and its effects and the authorities in Sweden and in most other countries have imposed restrictions on events, travel and business activities. Active Biotech's priority in the current situation is to ensure the well-being and safety of our employees, patients and partners. Therefore, we are taking the necessary precautions with regard to COVID-19 and will continue to monitor its spread and subsequent actions carefully.

We, together with business partners, have ongoing clinical trials and clinical trials planned to start. Global measures against COVID-19 and the need to prioritize health care resources are likely to affect the timelines of these studies. This means that the timing of the initial results of the ongoing Phase Ib/II study with naptumomab in patients with solid tumors and the start-up of the planned Phase Ib/IIa study with tasquinimod in multiple myeloma may be affected. In light of the rapidly developing situation with the COVID-19 virus, the timelines are still subject to change and we will provide updates as needed.

NOTE 25: RELATED-PARTY TRANSACTIONS

Close relationships

With regard to the Group's and Parent Company's subsidiaries, see Note 21. The composition of the Board and information relating to senior executives is presented on pages 36-37.

Related-party transactions

Apart from the remuneration concerning Board fees presented in Note 5, the Chairman of the Board received consultant fees of SEK 1.1 M in 2019. No other transactions with shareholders or members of the Board took place during the year.

For information concerning transactions with key individuals in managerial positions, see Note 5.

In 2019, the Parent Company's sales of services to Group companies totaled SEK 4,786 thousand (19,206). The Parent Company's purchases of services from subsidiaries amounted to SEK 407 thousand (8,289) in 2019. The Parent Company's receivables and liabilities relative to the subsidiaries as per December 31, 2019 are presented in the Parent Company's balance sheet.

NOTE 26: INFORMATION RELATING TO THE PARENT COMPANY

Active Biotech AB, Corporate Registration Number 556223-9227, 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 2019 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 22, 2020. 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 19, 2020.

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 22, 2020
The Board of Directors of Active
Biotech AB (publ)

Michael Shalmi	Uli Hacksell	Peter Sjöstrand	Peter Thelin
Chairman	*Board member*	*Board member*	*Board member*

Helén Tuvesson
President & CEO

We submitted our Audit Report on April 22, 2020
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 2019. The annual accounts and consolidated accounts of the company are included on pages 28-89 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 2019 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 2019 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 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 23 and the description of Risk factors and Outlook for 2020 in the Directors' report on pages 41-43 and 45 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 partner NeoTX in the development of naptumomab but also on performing activities according to the new strategic direction communicated in February 2020. This means that tasquinimod will be devoloped for treatment of multiple myeloma and laquinimod as a treatment of inflammatory eye diseases and as a treatmet of Crohn's disease.

The strategy is to advance these projects to enable early and cost- effective value crystallisation to the Company through partering/out- licensing.

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 naptumomab or any of its other projects generates revenue.

In 2019, the Compay´ s property was sold, which contributed approximately 70 SEK million in cash to the Company.

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:

- Available cash including the cash advance fromow from the sale of the property
- Expected cash flows from other sources such as development partnership;
- Expected cash flows from the remaining operating activities;

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

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 1-31, 36-37 and 96-99. 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 ac-

cepted 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 2019 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 23 May 2019. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 1999.

Malmö, April 22, 2020

KPMG AB

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Linda Bengtsson
Authorized Public Accountant

SUMMARY OF FINANCIAL DEVELOPMENT

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 calculated by dividing recognized shareholders' equity by recognized total assets.

SEK M	2019	2018	2017	2016	2015
Income statement					
Net sales	8.4	20.1	20.2	19.0	16.3
Operating expenses	-40.7	-49.9	-122.7	-74.1	-194.2
(of which, depreciation/amortization)	-0.9	-0.4	-6.1	-11.8	-12.0
Operating loss	**-32.3**	**-29.8**	**-102.5**	**-55.1**	**-177.9**
Net financial items	-1.8	-7.0	-7.4	-6.7	-6.8
Loss before tax	**-34.1**	**-36.9**	**-109.9**	**-61.8**	**-184.7**
Tax	–	–	1.1	2.2	-8.8
Loss for the year	**-34.1**	**-36.9**	**-108.8**	**-59.6**	**-193.5**
Balance sheet					
Tangible fixed assets	3.2	1.3	1.7	328.1	329.8
Financial fixed assets	0.0	0.0	0.0	0.0	0.0
Other current assets	4.1	275.6	276.9	7.1	16.0
Cash and cash equivalents	59.7	25.6	25.2	77.7	103.6
Total assets	**67.0**	**302.4**	**303.8**	**412.9**	**449.4**
Shareholders' equity	53.8	87.9	77.7	182.6	180.6
Interest-bearing provisions and liabilities	3.3	204.4	210.4	216.3	222.8
Non interest-bearing provisions and liabilities	9.9	10.1	15.7	14.0	46.0
Total shareholders' equity and liabilities	**67.0**	**302.4**	**303.8**	**412.9**	**449.4**
Condensed cash-flow statement					
Cash flow from operating activities before changes in working capital	-33.3	-36.4	-53.3	-50.0	-172.7
Changes in working capital	-2.5	-4.2	6.9	-23.1	-45.2
Cash flow from investing activities	275.0	–	–	–	–
Cash flow from financing activities	-205.1	41.0	-6.1	47.2	-6.9
Cash flow for the year	**34.1**	**0.4**	**-52.5**	**-25.9**	**-224.8**
Key figures					
Equity/assets ratio, %	80	29	26	44	40
Earnings per share (SEK)	-0.24	-0.27	-0.89	-0.65	-2.13
Dividends (SEK)	0	0	0	0	0
Research and development costs (SEK M)	-28.5	-39.3	-49.4	-58.2	-176.2
Average number of employees	12	16	17	28	55
Salary expenses, incl. social-security costs (SEK M)	-18.2	-19.8	-30.3	-29.2	-68.9
Number of shares at end of period (thousands)	145,236	145,236	96,824	96,824	89,908

GLOSSARY

Aryl hydrocarbon receptor (AhR) – an common receptor present in most of the body's cells. Acts as a transcription factor.

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.

Crohn's disease – an inflammatory bowel disease in which autoimmune activity causes inflammation of the gastrointestinal tract.

EMA – European Medicines Agency.

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. 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.

Clinical studies – Studies of how a pharmaceutical affects humans.

Laquinimod – Active Biotech's candidate drug for treatment of eye diseases and Crohn's disease.

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.

MS – Multiple sclerosis, a chronic autoimmune neurodegenerative disease.

Multiple Myeloma – A bone marrow cancer.

Naptumumab Estafenatox (naptumumab) – Active Biotech's candidate drug being developed in cooperation with NeoTX.

Neurodegenerative – Degenerative for the nervous system.

Paquinimod – Active Biotech's candidate drug in the 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.

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, paquinimod and tasquinimod belong.

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

Systemic sclerosis – A rare disease of the connective tissue.

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.

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

Uveitis – inflammation in the eye of the uveal tract (iris, ciliary body, & choroid), but can also lead to inflammation of nearby tissues, such as the retina, the optic nerve and the vitreous humor.

Wet AMD – Age-related macular degeneration (AMD) is caused by damage to the macula or retina.

2019

2019

DESIGN AND PRODUCTION: Clavis Communications | PHOTO: Lars Strandberg, Werner Nystrand

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