

**Active Biotech Group
Annual Accounts Report
January - December 1998**

- ◆ **Research and co-operation projects according to plan**
- ◆ **Net income SEK –35 million in comparison with the forecast of SEK -45 million**
- ◆ **Available liquid funds at the end of the year, SEK 644 million. An additional SEK 320 million after sale of property**
- ◆ **New President and new Research Director**
- ◆ **Focus on biotech through distribution of Wilh. Sonesson AB**
- ◆ **Wilh. Sonesson AB back on the Stock Exchange**

INTERNAL PROJECTS

SAIK substance against MS - drug candidate selected

The group's research fields are infectious diseases, inflammatory and autoimmune diseases, and cancer. In the USA alone, over 20 million people are estimated to suffer from autoimmune diseases with few satisfactory treatment methods. SAIK is Active Biotech's collective name for various substances for regulating the human immune defence.

In December, which was quicker than planned, SAIK-MS was selected as a drug candidate. It will be documented during the present year in order to commence the first clinical trials on humans, Phase I, in 2000. Over 20,000 new cases, often young people, are diagnosed with multiple sclerosis (MS) every year. Today only about 25% of the patients can be treated successfully using existing drugs.

SAIK – against other diseases

Experimental studies of the treatment of psoriasis, a commonly occurring disease which affects around 10 million people in the industrialised world, are continuing in parallel. Research into SAIK substances against asthma, juvenile-onset diabetes and rheumatoid arthritis is going according to plan. The goal is to develop new substances with an improved effect, fewer side effects, a better health-care economy and medication in tablet form instead of injections.

PROJECTS IN CO-OPERATION WITH PARTNERS

SmithKline Beecham - ETEC vaccine

During 1998/99, SBL Vaccin, together with the SmithKline Beecham, SB, co-operation partner, is implementing extensive clinical trials in Phase III of the oral ETEC vaccine against so-called tourist diarrhoea. Field studies cover German and Swiss travellers to Kenya and American students of language training in Guatemala and Mexico. A well implemented study is required for approval by the FDA. Information about the studies will be provided when effect data exists, when SB submits the documentation for registration and when the registration is approved.

It is estimated that the international launch by SB of the ETEC vaccine will occur as planned in 2001. Various diarrhoea illnesses often affect travellers to Asia, Africa, Latin America and the Mediterranean countries. The most common cause is ETEC bacteria, and there is no vaccine on the market at present. The market potential is judged to be around USD 300-650 million.

SBL Vaccin has a process patent valid until 2013. An application for a product patent has been submitted during the year. The ETEC vaccine has been developed completely internally since 1993, with experience of the cholera vaccine, Dukoral, registered in Sweden and Norway. Both vaccines contain the same rCTB component, which makes the vaccine drinkable and in itself creates protection. In order to acquire the patent rights to rCTB and to receive all royalty payments from Dukoral and a future ETEC vaccine, the Vitec company was acquired for SEK 25.6 million cash with an additional purchase sum of 60,000 B-shares upon approved ETEC registration.

SmithKline Beecham – Cholera vaccine

Every year, around three million people in the world are affected by cholera, with around 150,000 deaths. SBL Vaccin's drinkable cholera vaccine, Dukoral, is sold in Sweden, and has been sold in Norway for some years, with a turnover of SEK 13 million, an increase of 74%. Dukoral is also registered as a prophylaxis against ETEC. The vaccine is the only cholera vaccine which has undergone field studies. During 1999, an application for registration of the vaccine in the USA and the EU is planned with a launch one year later by SB.

Pharmacia & Upjohn - TTS cancer immunotherapy

The contract research with P&U is progressing as planned and aims to produce a method for identifying tumour cells in order to activate the immune defence system so that the cancer cells are destroyed (TTS is Tumour Targeting Superantigen). The research has previously generated two drug candidates for clinical trials and the goal is to develop a new product candidate for Phase I studies next year. The co-operation entails research revenues over 3 years of SEK 175 million, of which the first year, 1998 is SEK 50 million.

North American Vaccine - IPV polio vaccine

During the year, SEK 18 million has been invested in a total reconstruction of the polio vaccine factory in Solna, Sweden. During 1998, the co-operation partner, North American Vaccine, achieved registration of its new infant vaccine. SBL manufactures an interactive polio vaccine, IPV, which will be included in a completely new combination vaccine on the American market.

Vaccine Solutions Pty - Streptococcus vaccine

A further co-operation agreement, with Australian Vaccine Solutions Pty, has been signed within the highly prioritised field of streptococcal infections. There is no vaccine on the market today. The development and selection of drug candidates has been intensified during the year with planned Phase I studies during the year 2000.

UMDS caries

During the year, Actinova's project portfolio has been developed well and broadened through, inter alia, a licence agreement with UMDS, United Medical and Dental Schools in London, on developing a peptide-based drug against streptococcal bacteria in the oral cavity which cause serious caries.

BioPhausia – co-operation on cancer

The research co-operation involves testing the effect of the hyaluronidas enzyme on cancer tumours. The project may have great potential and the aim is, together with American research groups, to test the hypothesis within one year in order thereby to determine the value of the project.

Other technological development

During the year, Actinova acquired a new technology, CDT (Covalent Display Technology), in order to develop a so-called library of peptides and other substances. The technology will be used for in-house vaccine development, and will also be sold to other companies. The first licence has been signed with Invitrogen, California.

Active Biotech's ambition is to be a link between universities and the major pharmaceutical companies. Since 1985, broad co-operation has continued with the Institution for Cell and Molecular Biology in Lund. In total, project co-operation is continuing with around 150 external researchers at 27 Swedish and foreign universities.

New President and new Research Director

Sven Andréasson, from Pharmacia & Upjohn's French subsidiary, has taken over as the new President in Active Biotech as of 01-02-1999. Karl Olof Borg, with a background from Astra and Pharmacia & Upjohn, was appointed research director in the group in March.

FOCUS ON BIOTECH THROUGH DISTRIBUTION OF WILH. SONESSON AB

The board of directors for Active Biotech proposes that the annual general meeting makes a decision on the distribution of all shares in the subsidiary company, Wilh. Sonesson AB, to Active Biotech's shareholders. Since January 1999, Wilh. Sonesson AB is the parent company in a group consisting of the three operating subsidiaries Helikopterservice Euro Air AB, Inter Air AB and Sonesson Inredningar AB, as well as a block of shares in the listed Lifco AB (1.5 million shares corresponding to 16.6 % of the capital and 10.4 % of the votes). However, the proposal is conditional on the possibility for implementing the distribution pursuant to "lex ASEA" so that it is tax-free for the shareholders. The intention is that the distribution shall be implemented within the first half of the year.

For every share in Active Biotech in series A or series B, it is proposed that the shareholders in Active Biotech shall receive a share from the corresponding series in Wilh. Sonesson AB. After the distribution, Wilh. Sonesson will initially have the same ownership structure as Active Biotech. The number of shares will amount to the same number, 11,246,292.

Further information will be distributed to Active Biotech's shareholders approximately two weeks before the general meeting.

Wilh. Sonesson's activity

Wilh. Sonesson is a development company which will invest in operating companies and which by supplying expertise and capital will improve the companies' inherent ability to grow. The strategy is to operate a few, large projects through active ownership.

At the time of distribution, it is estimated that the distributed group will have equity of around SEK 205 million, approximately SEK 18 per share. The forecast turnover for 1999 is SEK 300 million with an estimated net income after financial items of around SEK 30 million. The parent company, Wilh. Sonesson, will have a debt-equity ratio of 100 %, i.e. completely free of debt, and the group will have a 50% debt-equity ratio. Active Biotech's available liquidity will reduce by SEK 71 million upon distribution.

Sonesson Inredningar trebled profit

Turnover amounted to SEK 141 million (SEK 124 million), +14 % and the net income after financial items amounted to SEK 9 million (SEK 3 million). Sales increased on all markets, especially Denmark +16 %, Norway +44 % and Germany +55 %.

Acquisition of Alnäs Möbelfabrik AB

In order to strengthen its position within the school sector, Sonesson Inredningar has acquired the furniture factory, Alnäs Möbelfabrik AB, in Mårdaklev, Sweden, which had a turnover last year of SEK 25 million and a net income of SEK 4 million. The take-over date will be 01-01-1999. The addition of Alnäs broadens the range, and sales of school furnishings are expected to increase sharply in Sonesson's Swedish and foreign sales channels.

Helikopterservice's profit margin is 18%

In 1998, 83,500 passengers used Helsingborg/Malmö-Copenhagen Airport - a volume increase of around 10 %. Turnover amounted to SEK 83 million (SEK 72 million) and the net income after financial items was SEK 15 million (SEK 25 million). The sale of a helicopter in connection with new purchasing had a positive effect on the net income of SEK 4 million (SEK 12 million).

Inter Air makes investments

During the year, the company acquired a larger aircraft for SEK 64 million and in December sold the oldest aircraft with a profit of SEK 8 million. Turnover amounted to SEK 32 million (SEK 22 million) and the net income after financial items was SEK 5 million (SEK 0 million).

New MD for Wilh. Sonesson AB

Fredrik Herslow, 37 years, former Sweden director for Nova Medical AB, owned by the Bure group, with a turnover of SEK 350 million and 400 employees, has been appointed MD.

FINANCIAL POSITION

Available liquidity amounted to SEK 644 million at the turn of the year. Property sales provided additional liquidity as of the day of taking possession on 01-02-1999 of SEK 320 million. It is estimated that sale of the Solna property will be completed during 1999. The interest-bearing debts in the biotechnology division amounted to SEK 93 million and in the rest of the companies to SEK 148 million. The group's debt-equity ratio was 68% and the parent company's debt-equity ratio was 85 %.

Investments

Company acquisitions amounted to SEK 421 million, of which the acquisition of Lund Research AB amounted to SEK 351 million.

Next reports:

Q1 report will be issued on 17 May

Q2 report will be issued on 26 August

Q3 report will be issued on 25 November

GENERAL MEETING

An annual general meeting will take place on Monday 10 May, 5.00 p.m., at the Star Hotell in Lund. After the meeting, there will be a guided tour at our research center at IDEON.

Lund, 25 February 1999

Board of Directors

Active Biotech AB (Publ.)

Active Biotech is a biotech group with a wide portfolio and with considerable financial resources. The group's activity is based on expertise relating to the human immune defence system. 185 researchers in Lund, Solna and Cambridge are developing vaccines against tourist diarrhoea, cholera, polio and streptococcal infections, and are carrying out research into drugs against, inter alia, multiple sclerosis, rheumatoid arthritis, cancer and asthma.

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Group profit and loss account, 1998	Biotechnology	Other activity	Group, total
Amounts in MSEK			
Net sales	259.4	255.4	514.7
Cost of goods sold	-203.4	-173.8	-377.2
Gross profit	56.0	81.6	137.6
	21.57 %	31.96 %	26.72 %
Selling expenses	-18.6	-46.4	-65.0
Administrative expenses	-53.7	-16.3	-69.9
Research & Development costs	-133.1	-1.4	-134.5
Items affecting comparability	79.7	6.7	86.4
Other operating income and expenses	8.0	1.9	9.9
Operating profit/loss	-61.7	26.1	-35.6
	-23.70 %	10.36 %	-6.92 %
Net financial items	22.0	-8.3	13.7
Deficit on sale of subsidiary		-13.1	-13.1
Profit/loss after financial items	-39.7	4.8	-35.0
Minority interest in result for the period	-	-0.1	-0.1
Appropriations	0.4	-0.4	0.0
Profit/loss before tax	-39.3	4.3	-35.1
Tax	-0.5	2.0	1.5
Profit/loss for the year	-39.8	6.3	-33.6
<i>Depreciations included above</i>	<i>-28.7</i>	<i>-29.1</i>	<i>-57.7</i>

As of 1 April 1998, the LRC acquisition was consolidated in the group. A comparison between annual accounts for a full year in 1998 and 1997 is totally misleading due to a changed business structure. The non-comparable items amount to SEK 86.4 million, of which SEK 79.7 million is profit on realisation of the property in Lund. Direct R&D costs of SEK 36.8 million, referring to ETEC cholera vaccines, have been activated as the previous year and according to valid accounting practice. The group's turnover in 1997 amounted to SEK 457 million, the operating result was SEK 37 million and the net income before tax was SEK 39 million.

Group balance sheet	1998	1997
Amounts in MSEK		
Intangible fixed assets	279.1	223.7
Tangible fixed assets	541.7	949.0
Financial assets	94.7	0.3
Total fixed assets	915.5	1173.0
Inventories	75.2	70.3
Current receivables	411.0	101.4
Cash and bank balances	612.4	338.7
Total current assets	1098.6	510.4
Total assets	2014.2	1683.4
Total equity	1363.8	546.8
Minority interest	3.8	23.6
Provisions	58.5	108.8
Long-term liabilities *	296.3	700.6
Current liabilities**	291.9	303.6
Total equity & liabilities	2014.2	1683.4

* Interest-bearing LiL, 31-12-98, amounts to SEK 195.4 million, of which SEK 127.6 million belongs to group companies not related to biotechnology.

** Interest-bearing CL 31-12-98 amounts to SEK 45.0 million, of which SEK 20.2 million refers to group companies not related to biotechnology.

Financing analysis	Group	
Amounts in MSEK	1998	1997
Net income before appropriations and tax	-35.0	38.7
Depreciations	57.7	52.9
Tax	1.5	-8.3
Change of working capital	-326.2	124.3
CASH FLOW BEFORE INVESTMENTS	-302.0	207.6
Net investments in intangible assets	-61.4	-205.4
Net investments in tangible assets	355.5	-368.0
Net investments in financial assets	-93.4	6.6
CASH FLOW AFTER INVESTMENTS	-101.3	-359.2
New issues	494.9	
Non-cash issue & conversion	380.0	4.0
Dividend	-22.3	-55.3
Change of long-term liabilities	-454.6	227.8
Other	-23.0	-16.0
CHANGE OF LIQUID ASSETS	273.7	-198.7

Key figures	
Group equity/assets ratio	67.9 %
Parent company equity/assets ratio	84.5 %
Average number of annual employees, total	508
Average number of annual employees, biotechnology	315
Proportion of research staff (biotechnology units)	191
Number of shares	11,246,292
Equity/share	SEK 121.27
Liquid assest/share	SEK 57.29