OFFERING CIRCULAR **CONFIDENTIAL**

Orexo AB

3,700,000 Ordinary Shares

Orexo AB ("Orexo" or the "Company"), a public limited liability company under Swedish law, is offering 3,700,000 new ordinary shares ("ordinary shares" or "shares") which will raise gross proceeds of SEK 333.0 million based on the offering price of SEK 90 per share. The offering comprises a public offering to investors in Sweden pursuant to a separate prospectus in Swedish and an international offering to institutional investors pursuant to this offering circular. The international offering will be made to institutional investors outside of the United States in compliance with Regulation S under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"), and in the United States to qualified institutional buyers as defined in Rule 144A under the U.S. Securities Act in reliance on Rule 144A or another exemption from registration under the U.S. Securities Act.

Prior to the offering there has been no public market for the shares. Orexo's shares have been approved for listing on the O-list of Stockholmsbörsen (the "Stockholm Stock Exchange") under the symbol "ORX".

Price: SEK 90 per Ordinary Share

Investing in the shares involves risks. See the section entitled "Risk Factors" beginning on page 7 for a discussion of factors prospective investors should consider before investing in the shares.

Certain of Orexo's existing shareholders have granted the managers an option to procure the sale of up to 555,000 additional ordinary shares at the offering price.

The managers expect to cause delivery against payment of the shares to purchasers on or about November 14, 2005 through the facilities of VPC AB ("VPC"), the Swedish central securities depository. The shares will be eligible for clearance through VPC. Dealings in Orexo's shares are expected to commence on or about November 9, 2005.

The shares have not been, and will not be, registered under the U.S. Securities Act or any regulatory authority of any state within the United States and may be offered and sold only in transactions that are exempt from, or are not subject to, the registration requirements of the U.S. Securities Act. Prospective investors are hereby notified that sellers of the shares may be relying on the exemption from the provision of Section 5 of the U.S. Securities Act provided by Rule 144A or another exemption from registration. For a description of these and certain further restrictions on resale or transfer, see the sections entitled "Plan of Distribution" and "Transfer Restrictions".

Joint Bookrunner and Joint Lead Manager	Joint Bookrunner and Joint Lead Manager
ABG Sundal Collier	**Carnegie Investment Bank**

The date of this confidential offering circular is November 9, 2005.

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Prospective investors should rely only on the information contained in this offering circular or to which Orexo has referred such investors. Orexo has not authorized anyone to provide prospective investors with information that is different. This offering circular may only be used where it is legal to offer and sell the shares. The information in this offering circular may only be accurate on the date of this document and no representation is made that it was or will remain accurate on any other date.

In connection with the offering, Carnegie, on behalf of the managers, may effect transactions on the Stockholm Stock Exchange which stabilize the market price of Orexo's shares or maintains it at a level which would otherwise not prevail on the market. Such initiated measures may be interrupted at any time without notice and may be effected as from the first day of listing of Orexo's shares on the Stockholm Stock Exchange and for a period of 30 days thereafter. The managers, however, have no obligations to initiate stabilization measures.

In connection with the offering, each of the managers and any of their respective affiliates acting as an investor for its own account may take up shares and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Company or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references in this document to the shares being issued, offered or placed should be read as including any issue, offering or placement of such securities to the managers and any relevant affiliate acting in such capacity. The managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

This offering circular does not constitute an offer to sell or a solicitation of an offer to buy any security other than the shares offered hereby, and does not constitute an offer to sell or a solicitation of an offer to buy any shares offered hereby to any person in any jurisdiction in which it is unlawful to make any such offer or solicitation to such person.

No action has been or will be taken in any jurisdiction other than Sweden to permit a public offering of the shares in any jurisdiction where action would be required for that purpose.

This offering circular is being furnished by Orexo in connection with an offering exempt from registration under the U.S. Securities Act and applicable state securities laws solely for the purpose of enabling a prospective investor to consider the acquisition of the shares offered. Delivery of this offering circular to any other person or any reproduction of this offering circular, in whole or in part, without Orexo's consent and the consent of the managers, is prohibited. The information contained in this offering circular has been provided by Orexo and other sources identified herein. The managers make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering circular, and nothing contained in this offering circular is, or shall be relied upon as, a promise or representation by the managers.

Prospective investors are not to construe the contents of this offering circular as investment, legal or tax advice. Prospective investors should consult their own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of an acquisition of the shares. Orexo is not, and the managers are not, making any representation to prospective investors regarding the legality of an investment in the shares by prospective investors under applicable investment or similar laws.

Each person relying on this offering circular acknowledges that (1) such person has been afforded an opportunity to request from the Company and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein, (2) such person has not relied on the managers or any person affiliated with the managers in connection with any investigation of the accuracy of such information or its investment decision, and (3) no person has been authorized to give any information or to make any representation concerning the Company or the shares (other than as contained herein) and, if given or made, any such other information or representation should not be relied upon as having been authorized by the Company or the managers.

In making an investment decision regarding the shares offered by this offering circular, prospective investors must rely on their own examination of Orexo and the terms of the offering, including without limitation the merits and risks involved. The offering is being made solely on the basis of this offering circular. Any decision to acquire shares in the offering must be based solely on the information contained in this offering circular.

The shares are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the U.S. Securities Act and other applicable securities laws. The distribution of this offering circular and the offer and sale of the shares may be restricted by law in some jurisdictions. Persons into whose possession this offering circular or any of the shares may come must inform themselves about and observe any restrictions. See the sections entitled "Plan of Distribution" and "Transfer Restrictions". This offering circular does not constitute an offer of, or an invitation to acquire any shares in any jurisdiction in which the offer or invitation would be unlawful.

The information set out in the sections of this offering circular describing clearing and settlement is subject to any change or reinterpretation of the rules, regulations and procedures currently in effect of VPC. Investors wishing to use these clearing systems are advised to confirm the continued applicability of their rules, regulations and procedures. Neither Orexo nor the managers will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, book-entry interests held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to these book-entry interests.

Orexo reserves the right to withdraw the offering of shares at any time, and Orexo and the managers reserve the right to reject any commitment to subscribe for the shares in whole or in part and to allot to prospective investors less than the full amount of shares subscribed for by such investors.

A separate prospectus in Swedish has been approved by and registered with the Swedish Financial Supervisory Authority (Sw. *Finansinspektionen*) (the "SFSA") in accordance with the provisions of Chapter 2, Section 4 of the Swedish Financial Instruments Trading Act of 1991 (the "Swedish Financial Instruments Trading Act"). Approval and registration by the SFSA does not imply that the SFSA guarantees the factual information provided therein is correct or complete.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

The shares offered to prospective investors in the United States hereby have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered, sold, pledged or otherwise transferred except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in compliance with any applicable state securities law. Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined whether this document is truthful or complete. Any representation to the contrary is a criminal offence in the United States.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

This offering circular has not been approved by an authorized person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom. All applicable provisions of the Financial Services and Markets Acts 2000 (the "FSMA") have been complied with in respect of anything done in relation to the shares in, from or otherwise involving the United Kingdom.

No person may communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any of the shares except in circumstances in which Section 21(1) of the FSMA does not apply to the Company.

This communication is directed only at persons who (i) are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). This communication must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

NOTICE TO PROSPECTIVE INVESTORS IN JAPAN

The shares have not been and will not be registered under the Securities and Exchange Law of Japan. The shares may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (including Japanese corporations) or to any persons for reoffering or resale, directly or indirectly, in Japan or to any resident of Japan, except pursuant to an exemption from the registration requirements of the Securities and Exchange Law available thereunder and in compliance with all other applicable laws and regulations of Japan.

NOTICE TO PROSPECTIVE INVESTORS IN THE EUROPEAN ECONOMIC AREA

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive 2003/71/EC (each a "Relevant Member State"), with effect from and including the date on which the Prospectus Directive 2003/71/EC is implemented in that Relevant Member State (the "Relevant Implementation Date"), no offer of the shares may be made to the public in that Relevant Member State prior to the publication of a prospectus in relation to the shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive 2003/71/EC, except offers of the shares may be made, with effect from and including the Relevant Implementation Date, to the public in that Relevant Member State at any time: (a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities; (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR 43 million and (3) an annual net turnover of more than EUR 50 million, as shown in its last annual or consolidated accounts; or (c) in any other circumstances which do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive 2003/71/EC.

NOTICE TO PROSPECTIVE INVESTORS IN SWITZERLAND

Any shares offered hereby are being offered in Switzerland on the basis of a private placement. This offering circular does not constitute a prospectus within the meaning of Art. 652A of the Swiss Federal Code of Obligations.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED, 1955, AS AMENDED ("RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

FORWARD-LOOKING STATEMENTS

This offering circular includes various forward-looking statements and includes assumptions about future market conditions, operations and results. These statements appear in a number of places, including the sections entitled "Risk Factors", "Background and Reasons for the Offering", "Dividend Policy", "Operating and Financial Review and Prospects", "Overview of the Drug Delivery Market" and "Business", and include statements regarding Orexo's current intentions, beliefs or expectations. The words "believe", "expect", "anticipate", "intend" or "plan" and similar expressions identify certain of such forward-looking statements. Others can be identified from the context in which the statements are made. Actual events or results may differ materially from such statements as a result of risks or other factors that Orexo faces. Such factors include, among others, the following: uncertainties relating to the results of clinical trials; uncertainties relating to regulatory approval and commercial feasibility; the limited sales and marketing experience and manufacturing capabilities of Orexo; the ability of the Company to attract and retain technologically skilled employees; dependence on patents and proprietary technology; availability of licensing arrangements; potential patent infringements; dependence upon collaboration partners; future capital needs and the uncertainty of additional funding; risks of product liability and limitations of insurance; limitations of supplies; competition from other drug delivery companies and biopharmaceutical, chemical and pharmaceutical companies; environmental, health and safety matters; currency fluctuations; adverse changes in governmental rules and fiscal policies; civil unrest, force majeure, acts of war, and other factors referenced in this offering circular.

Orexo cautions prospective investors that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Orexo also cautions prospective investors that actual results may differ materially from those made in, or suggested by, the forward-looking statements as a result of various factors. The information contained in this offering circular, including, without limitation, the information under the sections entitled "Risk Factors", "Background and Reasons for the Offering", "Dividend Policy", "Operating and Financial Review and Prospects", "Overview of the Drug Delivery Market", and "Business" identify important factors that could cause such differences. Orexo undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

ENFORCEABILITY OF LIABILITIES AND SERVICE OF PROCESS

Orexo is a public limited liability company (Sw. *publikt aktiebolag*) incorporated under the laws of Sweden with its registered office in the municipality of Uppsala, Sweden. All of Orexo's directors and officers reside in Sweden or other jurisdictions outside the United States. Substantially all of Orexo's and its directors' and officers' assets are located outside of the United States. As a result, it may not be possible for investors to effect service of process in the United States upon Orexo or its directors and officers or to enforce against Orexo or them judgments obtained in the U.S. courts predicated upon civil liability provisions of the federal securities laws or other laws of the United States.

Orexo's Swedish counsel, Advokatfirman Vinge KB, has advised Orexo that the United States and Sweden do not currently have a treaty providing for reciprocal recognition and enforcement of judgments rendered in connection with civil and commercial disputes. As a result, a final judgment for the payment of damages rendered by a court in the United States based on civil liability, whether or not predicated solely upon the federal securities laws of the United States, may not be enforceable in Sweden. If the party in whose favor the final judgment is rendered brings a new suit in a competent court in Sweden, however, the party may submit to the Swedish court the final judgment that has been rendered in the United States. A judgment by a court in the United States will be regarded by a Swedish court only as evidence of the outcome of the dispute to which the judgment relates, and a Swedish court may choose to rehear the dispute *ab initio*.

PRESENTATION OF FINANCIAL AND CURRENCY INFORMATION

As of January 1, 2005, Orexo began compiling its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). The interim report for the first quarter of 2005 is the first financial report submitted by the Company in accordance with the basis set out in the section entitled "Effects of the Application of IFRS". The interim report also includes assumptions made by Orexo about the standards and interpretations expected to be effective, and the policies expected to be adopted, when Orexo prepares its first set of annual IFRS financial statements as of December 31, 2005. Up to 2004, the Company applied the Swedish Financial Accounting Standards Council's recommendations and statements, referred to as "Swedish GAAP" in this document. Orexo's transition to IFRS is reported in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards", which means that the date of transition is January 1, 2004. IFRS 1 prescribes that the

comparative year, 2004, also be reported in accordance with IFRS. Financial information concerning fiscal years prior to 2004 is not restated. According to IFRS, all applicable IFRS and International Accounting Standards ("IAS") that have become effective and have been approved by the European Union at December 31, 2005 must be applied retroactively. For the preliminary effects of the applications of IFRS on Orexo's consolidated balance sheet, consolidated statements of operation and consolidated cash flow for the financial year 2004, see the section entitled "Effects of the Application of IFRS".

IFRS differ in certain material respects from accounting principles generally accepted in the United States ("U.S. GAAP"). In making investment decisions investors must rely upon their own examination of the Company, the terms of the offering and Orexo's financial information. Potential investors should consult their own professional advisors for an understanding of the differences between IFRS and U.S. GAAP and how those might affect the financial information herein.

All references in this offering circular to "SEK" are to the lawful currency of Sweden, all references to "EUR" are to the lawful currency of the member states of the European Union participating in the European Union's European Monetary Union (the "EMU") and all references to "USD" are to the lawful currency of the United States. Orexo presents its financial statements in SEK. In this offering circular, certain amounts stated in EUR or USD have been translated from SEK at a fixed rate, solely for convenience. These translations should not be construed as a representation by Orexo that SEK amounts actually represent these EUR or USD amounts, or vice versa, or that a conversion could be made at the rate indicated, or any other rate, or at all. Unless otherwise indicated, these EUR and SEK amounts have been translated at the rate of EUR 1.00 per SEK 9.34 and the USD and SEK amounts have been translated at the rate of USD 1.00 per SEK 7.78, the closing rates as published by Reuters Group PLC on September 30, 2005. For information regarding recent rates of exchange between SEK and EUR and between SEK and USD, see the section entitled "Exchange Rate Information and Regulations".

Certain amounts and percentages included in this offering circular have been rounded and accordingly may not add up to the total. Except as otherwise specified, the information in this offering circular assumes that the managers' over-allotment option, as described in the section entitled "Summary", has not been exercised.

AVAILABLE INFORMATION

Orexo currently furnishes to holders of its shares, and intends to continue to furnish, an annual report which will include Orexo's audited consolidated financial statements, prepared in accordance with IFRS. The financial statements included in the annual reports will be examined and reported upon, with an opinion expressed by Orexo's independent auditors. Orexo also currently furnishes, and will continue to furnish, to holders of its shares quarterly reports, which will include unaudited consolidated financial information prepared in accordance with IFRS.

Orexo currently plans to issue financial reports over the course of the next 12 months according to the following schedule:

- preliminary results announcement for 2005 at the latest on February 24, 2006;
- report on the first quarter 2006 at the latest on May 19, 2006;
- report on the second quarter 2006 at the latest on August 22, 2006; and
- report on the third quarter 2006 at the latest on October 19, 2006.

Orexo has agreed that for so long as any of the shares remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act, if at any time Orexo is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "U.S. Exchange Act"), nor exempt from reporting pursuant to Rule 12g3 2(b) of the U.S. Exchange Act, it will, upon request, furnish to any holder or beneficial owner of the shares, or to any prospective acquirers of the shares designated by such holder or beneficial owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the U.S. Securities Act. Any such request should be directed to Orexo at P.O. Box 303, SE-751 05, Uppsala, Sweden – attention: Malena Sténson (telephone number: +46-(0) 18 780 88 00).

MARKET SHARE AND INDUSTRY DATA

This offering circular contains historical market data and industry forecasts, including information related to the sizes of the markets in which Orexo participates or parts thereof, diseases targeted by Orexo's product candidates and the number of people affected by such diseases. This information has been obtained from a variety of sources, including professional data suppliers, such as IMS Health Inc. (a company listed on the New York Stock Exchange providing business intelligence products and services to the pharmaceutical industry), Datamonitor (a U.S.-based business information company specializing in industry analysis) and Wood Mackenzie (a company headquartered in Scotland providing a range of consultancy services and research products to the energy and life science sectors), pharmaceutical specialist literature and articles, company websites and other publicly available information as well as Orexo's knowledge of its markets. The publications of professional data suppliers state that the historical information they provide has been obtained from sources, and through methods, believed to be reliable, but that they do not guarantee the accuracy and completeness of this information. Similarly, industry forecasts and market research, while believed to be reliable, have not been independently verified by Orexo. Neither Orexo nor any of the managers represent that this historical information is accurate. Industry forecasts are, by their nature, subject to significant uncertainty. There can be no assurance that any of the forecasts will be achieved.

Market statistics are inherently subject to uncertainty and are not necessarily reflective of actual market conditions. Such statistics are based on market research which itself is based on sampling and subjective judgments by both the researchers and the respondents, including judgments about what types of products and transactions should be included in the relevant market.

A glossary of scientific and medical terms used in this offering circular is set forth on page 103.

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SUMMARY

The following summary may not contain all the information that may be important to prospective investors. Before making an investment decision, prospective investors should carefully read this entire offering circular, including the sections entitled "Risk Factors" and "Operating and Financial Review and Prospects" as well as the financial statements included elsewhere in this offering circular.

Overview

Orexo is a product based drug delivery company that develops proprietary pharmaceuticals to address areas of unmet therapeutic need. Drug delivery focuses on the process of formulating an active compound of a pharmaceutical product such that it is optimally delivered to a patient or an intended disease site. Orexo exploits its competence within clinical practice and drug development to identify and assess areas of therapeutic need that can be met by developing proprietary pharmaceuticals based on well documented pharmacologically active compounds that incorporate Orexo's drug delivery technologies.

Orexo commenced its operations in 1995 and is based in Uppsala, Sweden. Orexo's first product, Diabact® UBT for Helicobacter pylori infection diagnosis, was launched for commercial sale in 2000 and is today being sold in several markets. Orexo's first product candidate based on the Company's sublingual tablet technology, OX 20, for breakthrough pain in cancer patients, was outlicensed in Japan in 2003 and in North America in 2004. Other products in Orexo's product portfolio includes OX 22 for insomnia, which is based on the same drug delivery technology as OX 20 and which underwent two clinical trials in 2004. OX 17, a fast dissolving oral combination product for gastroeosophageal reflux disease (GERD), underwent a human proof of concept study in 2004, and OX 19, a product aimed at treatment of incontinence, was formulated in 2004. As of September 30, 2005 Orexo had 40 full-time employees, the majority of whom were engaged in research and development, clinical development and regulatory affairs.

Orexo's management believes that, despite recent advances in pharmaceutical discovery and development, there are significant shortcomings in many pharmaceuticals currently on the market, resulting in unmet therapeutic needs and providing an opportunity for a company such as Orexo, which reformulates pharmacologically active compounds to enhance their medical potential. Thus, Orexo's management believes that a significant number of unmet therapeutic needs in the pharmaceutical market could be addressed through the application of its drug delivery technologies. For instance, Orexo believes that sub-optimal formulations of pharmaceuticals are a significant factor behind the poor level of patient compliance with their pharmaceutical regimens. By improving the administration of such pharmaceuticals, drug delivery companies such as Orexo can help to improve compliance levels, thereby generating significant cost savings to payors of medical services. In addition, pharmaceutical companies that experience declines in research productivity are increasingly using drug delivery technologies to enhance product lifecycles and increase commercial returns. According to industry sources, sales of pharmaceutical products incorporating drug delivery technologies exceeded USD 79 billion in 2004, and such sales are estimated to grow to USD 117 billion by 2009.

Orexo aims to develop proprietary pharmaceutical products across a range of therapeutic areas that would improve the sub-optimal therapeutic characteristics of currently marketed products. Orexo has a leading expertise in dry formulations, the most common form used for formulating pharmaceuticals. To date, Orexo has focused on developing dry formulations for oral fast-dissolving, sublingual and transmucosal routes of administration for the treatment of acute conditions or symptoms where a rapid, predictable and reproducible onset of action is desirable such as pain and insomnia. Orexo believes that it has an extensive intellectual property portfolio that protects its products and technologies.

Orexo's management believes that the Company operates in a highly attractive segment of the pharmaceutical industry and will be able to benefit from:

- ***An increasing demand for drug delivery technologies***. The Company believes that there is an increasing demand for drug delivery technologies that can overcome the pharmacological limitations of existing pharmaceuticals as well as those in development. As a result, Orexo expects that growth rates for pharmaceuticals incorporating new drug delivery technologies will continue to exceed growth rates for the pharmaceutical industry as a whole.

- ***The ability to shorten development times and lower development risks and costs by improving the characteristics of already commercialized pharmaceuticals***. The active compounds Orexo works with are often well documented pharmaceuticals and, as such, the documentation required for obtaining regulatory approval for a reformulated pharmaceutical is often less extensive than would be the case with a pharmaceutical based on a new active compound. This has the potential to shorten the time period for regulatory marketing approval and to lower development risks and development costs as compared to traditional drug discovery and development.

- ***The ability to maximize the value of pharmaceuticals through effective management of intellectual capital and product lifecycles***. Companies that have drug delivery technologies which create more effective pharmaceutical formulations or novel production processes are often able to attain extended or additional patent protection for established active compounds, which has the potential to increase the commercial values of the active compounds significantly.

Product Portfolio

The Company has commercialized one product, has two product candidates which have reached preparation for the regulatory review phase, has one product candidate in the clinical phase and two product candidates that Orexo's management anticipates will enter the clinical phase in the next 12 to 24 months. See the section entitled "Overview of the Drug Delivery Market – Development and Regulatory Environment" for a description of Orexo's product development process.

Product Portfolio

		Status			
Product or Product Candidate	**Indication or Potential Use**	**Formulation Development Phase**	**Clinical Phase**	**Regulatory Review Phase**	**Commer-cialization Phase**
Diabact® UBT	Helicobacter pylori infection detection				
OX 20	Acute pain in cancer patients				
OX 22	Insomnia				
OX 17	Gastro Esophageal Reflux Disease (GERD)				
OX 19	Incontinence				
OX 40	Migraine				

Strategy

Orexo's ambition is to become a leading product-based drug delivery company with revenues generated from milestone payments and royalties from collaborating partners as well as potentially the sale of its own products. The Company's strategy includes the following key elements:

- Focus on addressing unmet therapeutic needs by combining existing, well documented active compounds with new, innovative drug delivery-technologies to develop novel proprietary pharmaceuticals.

- Achieve a high return on pharmaceutical development investment by developing proprietary pharmaceuticals that can be brought to the market faster and have a lower risk of clinical failure and lower development costs than pharmaceuticals developed through traditional drug discovery and development.

- Advance product candidates through all or parts of the clinical phase prior to partnering with pharmaceutical companies with development, regulatory, sales and marketing capabilities.

- Retain marketing rights, when deemed appropriate, and establish a focused, specialty sales organization for its products in selected European markets including the Nordic region. As an alternative to concluding license agreements, Orexo continually evaluates the potential financial benefits of establishing its own sales organization for the Company's products in selected markets, which Orexo's management believes could result in better control of the Company's revenue stream and higher profit margins.

- Continue to broaden Orexo's technology platform and product portfolio through the use of its patented technologies and expertise, and, when deemed appropriate, in-license or acquire new patented active compounds, companies or new drug delivery technologies.

Key Strengths

Orexo's management believes that the Company's business model has a number of strengths that have facilitated its growth to date and that will enable it to achieve its goal of becoming a leading product-based drug delivery company. The Company believes that these strengths include:

- Ability to develop novel pharmaceuticals more quickly, with lower development risks and at lower development costs than traditional drug discovery and development, by improving the characteristics of well documented pharmaceuticals and pharmacologically active compounds with its proprietary drug delivery technologies.
- An advanced, balanced product portfolio. The Company has commercialized one product, has two product candidates, OX 20 and OX 22, which have reached preparation for the regulatory review phase, has one product candidate, OX 17, in the clinical development phase, as well as two product candidates that Orexo's management anticipates will enter the clinical phase in the next 12 to 24 months.
- Proven ability to apply and commercialize Orexo's technologies through partnerships, having entered into partnership agreements with Endo Pharmaceuticals Inc. ("Endo Pharmaceuticals"), a U.S.-based pharmaceutical company focusing on pain management, and Kyowa Hakko Kogyo Co. Ltd. ("Kyowa Hakko"), a Japanese based pharmaceutical company with a strong position within cancer pharmaceuticals, for the development and marketing of OX 20 in North America and Japan, respectively. Orexo has also concluded several distribution agreements regarding Diabact® UBT in Europe and elsewhere.
- Leading expertise in dry formulation, the most common approach in formulating pharmaceutical products, with a focus on oral fast-dissolving, sublingual and transmucosal pharmaceuticals.
- Proven ability to generate strong innovation protection through the establishment of an intellectual property portfolio. The Company has 15 patent families comprising approximately 90 patents that have been granted, and has approximately 60 patents pending.
- Strong drug delivery technologies platform and continued focus on development of new proprietary drug delivery platforms. Orexo has a number of patented drug delivery technologies and new drug delivery technologies for which patent applications have been filed, which can be applied to several pharmaceutical compounds. These technologies include sublingual, mucoadhesive tablets, fast-dissolving tablets, pharmaceutical formulations of compounds that are difficult to dissolve, powder for administration via the nasal mucosa, and methods for optimizing the dissolution of pharmaceuticals in small liquid volumes.
- Orexo uses well documented active compounds that have substantial clinical trial history and known side effects, which enables stream-lined and effective documentation programs to obtain approval from regulatory authorities.
- Highly experienced management team with expertise in research and development, clinical and regulatory affairs, sales and marketing, finance and general management from global companies such as AstraZeneca, Pfizer, Pharmacia, Sanofi-Aventis and Wyeth as well as from the Swedish Medical Products Agency (Sw. *Läkemedelsverket*).

The Offering

Orexo	Orexo AB, organized under the laws of Sweden.
The Offering	A total of 3,700,000 ordinary shares, each with a nominal value of SEK 0.40, are being offered by the Company (excluding any shares offered pursuant to the over-allotment option). The offering consists of a public offering to investors in Sweden pursuant to a Swedish prospectus and a private placement to international institutional investors. Orexo will issue 3,700,000 new shares raising gross proceeds of SEK 333.0 million based on the offer price. Shares are being offered (1) outside the United States in compliance with Regulation S under the U.S. Securities Act and (2) in the United States only to qualified institutional buyers in reliance on Rule 144A or another exemption from registration under the U.S. Securities Act.
Offering Price	The offering price is SEK 90 per share.
Over-allotment Option	The Founders (as defined herein) have granted the managers an option to procure the sale of up to 555,000 additional shares, exercisable within 30 days from the first day of listing of the Orexo shares on the Stockholm Stock Exchange. See the section entitled "Plan of Distribution".
Founders	Orexo's founders, Thomas Lundkvist, Christer Nyström and Anders Pettersson, as well as Yvonne Håkansson (the "Founders").
Principal Shareholders	HealthCap 1999 ORX Holding AB, HealthCap Sidefund ORX Holding AB, HealthCap GbR ORX Holding AB and Odlander Fredrikson & Co AB, as member and on behalf of all other members, if any, of The OFCO Clubs (the "Principal Shareholders").
Lock-up	Orexo has agreed with the managers, subject to certain exceptions, among other things, that Orexo will refrain from resolving or proposing to the general meeting of shareholders to increase Orexo's share capital through an issue of shares or other securities that entitle its holders to subscribe for or exchange into shares in Orexo for a period of 180 days from the first day of listing of the Orexo shares on the Stockholm Stock Exchange, without the prior written consent of the managers. The Principal Shareholders will not, for a period of 180 days from the first day of listing of Orexo's shares on the Stockholm Stock Exchange, and the Founders, Orexo's directors and officers will not, for a period of 360 days from the first day of listing of Orexo's shares on the Stockholm Stock Exchange, without the prior written consent of the managers, whether directly or indirectly, offer, sell or agree to sell, pledge or in any other way grant or transfer Orexo's shares (or securities covertible into or exchangeable or exercisable for Orexo's shares).
Voting Rights	Each ordinary share carries the right to cast one vote on all matters submitted to a vote of Orexo's shareholders. See the section entitled "Description of Share Capital – Voting Rights".

Use of Proceeds.....	Orexo's management expects the Company to receive net proceeds from the issue of new shares in the offering of approximately SEK 301 million, after deducting underwriting commissions and transaction costs. Orexo currently intends to use the net proceeds from the offering to fund: (i) the development of the Company's current portfolio and pipeline including: the potential submission of a registration application for OX 22 to the FDA in the United States, the clinical documentation of additional indications for OX 22, the expansion of the development program for OX 17, the accelerated development of OX 19 and OX 40 and the addition of two new product candidates to the development portfolio in the next 12 to 24 months; the documentation of selected products to the regulatory review phase, (ii) the establishment of a sales organization, initially for OX 20, in selected European markets including the Nordic region; (iii) the expansion of the Company's research and development, in-house laboratory infrastructure and clinical capacity; and (iv) working capital, capital expenditures and other general corporate purposes. A portion of the net proceeds in the offering is expected to be used for the establishment of Orexo's own sales organization for OX 20 in selected European markets including the Nordic region. However, Orexo has identified alternative uses for the net proceeds from the offering in the event Orexo's management decides that a commercialization of OX 20 may be pursued in a financially more attractive manner than the establishment of its own sales organization. Should Orexo decide not to establish its own sales organization or to establish a different sales organization than as set out above, the proceeds will be used to further accelerate the development of the Company's product candidates and to broaden its development portfolio. Orexo may also use a portion of the proceeds for the acquisition of, or investment in, companies, technologies, products or assets that complement its business. Orexo is not currently a party to any agreements to enter into any potential acquisitions or investments. For most of the areas listed above, Orexo has not determined the amounts it plans to spend or the timing of these expenditures. As a result, Orexo's management will have broad discretion to allocate the proceeds of the offering. The amounts and timing of Orexo's actual expenditures will depend upon numerous factors, including the timing of the completion of clinical trials, the timing of regulatory submissions and any terms or conditions imposed as a condition of any regulatory approval of Orexo's product candidates, Orexo's product development and commercialization efforts for all Orexo's projects, the amount of proceeds actually raised in the offering, the amount of cash generated by Orexo's operations and the extent of competition facing Orexo. Orexo will not receive any proceeds from the sale of Orexo shares by the Founders.

Dividends and Dividend Policy.....	Holders of ordinary shares will be eligible for dividends, if any, declared in respect of the fiscal year ending December 31, 2005 and subsequent periods. Orexo crrently intends to retain earnings to fund future growth and the operation of its business and, accordingly, does not anticipate paying any cash dividends in the foreseeable future. There can be no assurance that in any given year a dividend will be proposed or declared at all.
Shares Outstanding	Prior to the offering, a total of 9,572,250 shares were outstanding. After the offering, a total of 13,272,250 shares will be outstanding, and the Principal Shareholders will beneficially own and control, in the aggregate, approximately 36.9% of all issued and outstanding shares before dilution resulting from the exercise of any warrants, and approximately 33.6% after dilution resulting from the exercise of all issued warrants.
Listing and Trading	Prior to the offering there has been no public market for Orexo's shares. Orexo's shares have been approved for listing on the O-list of the Stockholm Stock Exchange. Dealings in Orexo's shares are expected to commence on or about November 9, 2005. The shares will trade in lots of 100 shares. The identification numbers for the shares are as follows: ISIN:.....SE0000736415 Trading Symbol: .....ORX
Settlement and Clearance.....	The managers expect to cause delivery against payment of the shares to the purchasers on or about November 14, 2005 through the facilities of VPC.
Transfer Restrictions.....	Orexo's shares will be subject to certain restrictions on transfers as described in the section entitled "Transfer Restrictions".

Risk Factors

See the section entitled "Risk Factors" and the other information included in this offering circular for a discussion of risks that should be considered before investing in the shares.

RISK FACTORS

If a prospective investor acquires shares in Orexo, such investor will assume a high degree of risk. In deciding whether to invest, prospective investors should carefully consider all of the information set forth in this offering circular and, in particular, evaluate the specific factors set forth below, which describe certain risks of an investment in the shares offered. Any of the following risks as well as other risks and uncertainties discussed in this offering circular could have a material adverse effect on Orexo's business, financial condition, results of operations or prospects or cause the value of Orexo's shares to decline, which could cause investors to lose all or part of their investment. The risks and uncertainties described below are not presented in order of importance and are not the only ones facing Orexo and an investment in Orexo's shares. Additional risks and uncertainties that Orexo is unaware of, or that are currently deemed to be immaterial, may also become important factors that affect Orexo.

Risks Associated with Orexo's Business

Orexo is a drug delivery company in the development stage with only one product on the market and only two other product candidates in late-stage development.

Orexo is a drug delivery company in the development stage. Orexo only has one product, Diabact® UBT, which has reached the market and only two product candidates, OX 20 and OX 22, which have reached preparation for the regulatory review phase. OX 17 is in the clinical phase. Most of Orexo's other product candidates are in the formulation development phase or projects in an early research stage. Apart from OX 20, none of Orexo's product candidates have yet generated revenues, and may never do so. Those of Orexo's product candidates, which have not yet been licensed or commercialized, will require significant additional research and development, as well as clinical and laboratory testing prior to submission of any regulatory application and will require significant clinical trials and regulatory approval prior to any market launch or licensing to a pharmaceutical company for commercialization.

Future product development efforts of Orexo are subject to the risks of failure inherent in the development of pharmaceutical products. These risks include the possibilities that any or all of Orexo's product candidates will be found to be ineffective, unsafe, toxic, or otherwise fail to either meet applicable regulatory standards or to receive necessary regulatory approvals or clearances. Side effects in formulation development studies or human clinical trials could cause Orexo, its collaborating partners, or regulatory authorities to interrupt, limit, delay or discontinue the development of any of Orexo's product candidates and could ultimately prevent their approval for any of the targeted indications. Even after receiving approval, products may later exhibit adverse effects that could prevent their widespread use and necessitate their withdrawal from the market. Products under development by Orexo may not be safe when administered to patients. Furthermore, there is a risk that Orexo's product candidates, even if safe and effective, will be difficult to develop into commercially viable products. Orexo and its collaborating partners may also experience difficulties in large-scale manufacturing or may find it uneconomical to market and sell the Company's product candidates. Moreover, the proprietary rights of third parties may preclude Orexo and its collaborating partners from marketing Orexo's product candidates.

Although the above risk factors are generally less pronounced in the development of novel pharmaceuticals by use of drug delivery technologies than in traditional drug discovery and development, they are still tangible risks to which Orexo's business is exposed. If Orexo is unable to develop, receive approval for, or successfully license or commercialize any of its product candidates, Orexo may be unable to generate sufficient revenues to achieve long-term profitability. If its development programs are delayed, Orexo may have to raise additional capital or reduce or cease its operations.

Since Orexo has a history of losses and its future profitability is uncertain, investment in the Orexo share has a high degree of risk.

Orexo has experienced significant operating losses from the inception of its business operations in 1995 through the nine months ended September 30, 2005. For the nine months ended September 30, 2005, Orexo had a net loss of SEK 7.9 million, based on IFRS. As of December 31, 2004, Orexo had incurred a cumulative net loss of SEK 99. 1 million since the incorporation of the Company, based on Swedish GAAP. A large portion of Orexo's expenses is fixed, including expenses related to facilities, equipment and personnel. In addition, Orexo's management expects Orexo to spend significant amounts to fund research, development, licensing and commercialization of its product candidates

and to further develop its core technologies. As a result, Orexo's management expects that Orexo's operating expenses will continue to increase in the near term. There is no guarantee that Orexo will, over time, have sufficient revenues or positive cash flow to sustain its operations. Orexo's management expects that additional revenues that may follow from the already licensed product candidate OX 20, and from the licensing of new product candidates, may fluctuate and that the fluctuations could be substantial.

Orexo's failure to remain profitable could depress Orexo's share price and could impair Orexo's ability to raise capital, expand its business, diversify its product offerings or continue its operations.

If Orexo's clinical trials are not successful, Orexo may not be able to successfully develop and license or commercialize its products.

To obtain regulatory approvals for the commercial sale of its product candidates, Orexo and its collaborating partners will be required to complete clinical trials in humans to demonstrate the safety and efficacy of Orexo's product candidates. Orexo and its collaborating partners may not be able to obtain authority from regulatory agencies to commence or complete these clinical trials. If permitted, such clinical trials may not prove that Orexo's product candidates are safe and effective to the extent necessary to permit Orexo and its collaborating partners to obtain marketing approvals from regulatory agencies. Moreover, positive results demonstrated in formulation development studies and clinical trials that Orexo and its collaborating partners complete may not be indicative of results obtained in future clinical trials. Furthermore, Orexo, its collaborating partners, institutional review boards, or regulatory agencies may suspend clinical trials at any time if it is believed that the subjects or patients participating in such trials are being exposed to unacceptable health risks. Adverse or inconclusive clinical trial results concerning any of Orexo's product candidates may require Orexo and its collaborating partners to conduct additional clinical trials, which could result in increased costs, significantly delay the filing with regulatory authorities, result in a filing for a narrower indication, or cause Orexo and its collaboration partners to abandon the commercialization of the product candidate.

Orexo or third parties on which Orexo relies may not successfully begin or complete the Company's clinical trials in the time periods Orexo has forecasted, or at all. Moreover, if Orexo incurs costs or delays in its development programs or if Orexo does not successfully develop and license or commercialize its products, Orexo's share price could decline.

Even if Orexo receives regulatory approval to market its product candidates, the market may not be receptive to its product candidates upon their commercial introduction, which could prevent Orexo from becoming profitable.

Orexo focuses on the development of novel pharmaceuticals by the application of proprietary drug delivery technologies to well documented active compounds that are often no longer protected by patents. As a result, Orexo's management believes that it will be easier for Orexo to convince the medical community and third-party payors to accept and use its products than for drug discovery and development companies developing new compounds. However, the drug delivery technologies applied in Orexo's products are new and the products are intended to replace or alter existing therapies or procedures. Hospitals, physicians and patients may conclude that these products are less safe and effective or otherwise less attractive than existing therapies or procedures.

Further, Orexo's competitors may develop new technologies or products that are more effective or less costly, or that seem more cost-effective, than Orexo's products. There can be no assurance that hospitals, physicians, patients or the medical community in general will accept and use any products that Orexo may develop.

Other factors that Orexo's management believes will materially affect market acceptance of Orexo's product candidates under development include:

- the timing of Orexo's receipt of any marketing approvals, the terms of any approval, and the countries in which approvals are obtained;

- the safety, efficacy and ease of administration of its pharmaceuticals;

- the quality and price of competing pharmaceuticals; and
- the selling effort and commitment by collaborating partners.

Orexo's success is dependent on key personnel.

Orexo is highly dependent on the members of its management team and other key personnel and their knowledge and expertise. The loss of any of its key employees could delay or cause the termination of Orexo's research programs and the development and licensing or commercialization of its product candidates. The future success of Orexo will also depend to a large extent on its continued ability to attract and retain other highly qualified scientific and management personnel, as well as personnel with expertise in clinical trials and governmental regulation. Orexo faces competition for personnel from other companies, universities, public and private research institutions, government entities and other organizations. If Orexo is unsuccessful in its recruitment and retention efforts, its business will be harmed.

Orexo also relies on consultants and collaborating partners to assist Orexo in various areas of operations. All of Orexo's consultants and collaborating partners are employed by other employers or are self-employed and may have commitments to or consulting contracts with other entities that may limit their ability to contribute to Orexo.

Orexo may require substantial additional funds to reach profitability and, if additional capital is not available, Orexo may need to limit, scale back or cease its operations.

Orexo has used and will continue to require substantial funds to conduct research and development, including formulation development and clinical trials of its potential products. Orexo may be required to seek additional external funding in the future and may do so through collaborative arrangements and public or private financing. Additional financing may not be available to Orexo on acceptable terms, or at all. If Orexo is unable to obtain funding on a timely basis, Orexo may be required to significantly curtail one or more of its research or development programs.

The terms of any financing available may adversely affect Orexo's operations or the rights of Orexo's shareholders. To the extent that Orexo raises additional funds by issuing shares or equity securities, the shareholders of Orexo will experience dilution, and debt financing, if available, may involve restrictive covenants or may otherwise constrain Orexo's financial flexibility. To the extent that Orexo finances the development of its product candidates through collaborative arrangements, it may be necessary for Orexo to relinquish some rights to its technologies or grant licenses on terms that are not favorable to Orexo. In addition, payments made by collaborators will generally depend upon Orexo's achievement of negotiated development and regulatory milestones. Failure to achieve these milestones may significantly harm the future capital position of Orexo.

Even if Orexo is able to raise additional funds in a timely manner, its future capital requirements may vary from what Orexo's management expects and will depend on many factors, including the following:

- the costs of development and licensing or commercialization of Orexo's product candidates, if and when such candidates are approved by regulatory authorities;
- the timing, receipt, and amount of milestone and other payments, if any, from collaborating partners;
- the timing, receipt, and amount of sales and royalties, if any, from Orexo's current and potential products and product candidates;
- the resources required to successfully complete the clinical trials of Orexo's product candidates;
- the time and costs involved in obtaining regulatory approvals;
- continued progress in Orexo's research and development programs, as well as the magnitude of these programs;

- the costs involved in preparing, filing, prosecuting and maintaining patents, and enforcing patent claims;
- the cost of obtaining and maintaining licenses to use patented technologies; and
- Orexo's ability to establish and maintain additional collaborative arrangements.

Many potential competitors of Orexo have greater financial resources and expertise in research and development, clinical trials, obtaining regulatory approval and marketing than Orexo.

Orexo competes with many companies and institutions, including pharmaceutical companies, biotechnology companies, academic institutions and research organizations, in developing products based on alternative drug delivery techniques. Competitors may develop more effective, more affordable or more convenient products or may achieve earlier patent protection or commercialization of their products. These competing products may render Orexo's product candidates obsolete or limit the ability of Orexo to generate revenues from its product candidates.

Many of the companies developing competing technologies and products have significantly greater financial resources and expertise in research and development, manufacturing, formulation development and clinical trials, obtaining regulatory approvals and marketing than Orexo. Other smaller companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. Academic institutions, government agencies and other public and private research organizations may also conduct research, seek patent protection, and establish collaborative arrangements for research and development, manufacturing, formulation development and clinical trials, obtaining regulatory approval and marketing of products similar to those of Orexo. These companies and institutions compete with Orexo in recruiting and retaining qualified scientific and management personnel. Technology controlled by third parties that may be advantageous to the business of Orexo may be acquired or licensed by Orexo's competitors, thereby preventing Orexo from obtaining that technology on commercially reasonable terms, or at all. If Orexo is unable to successfully compete with existing and potential competitors it will cause substantial harm to the Company's business.

Orexo may be exposed to product liability claims and may not be able to obtain or maintain adequate product liability insurance.

The business of Orexo exposes the Company to the risk of product liability claims that is inherent in the manufacturing, testing, and marketing of human therapeutic products. Orexo may not be able to obtain or maintain insurance on acceptable terms, or at all. Moreover, any insurance that Orexo does obtain may not provide adequate protection against potential liabilities. This could have a material adverse effect on Orexo's financial condition and business.

Orexo's operations are concentrated at one facility.

All of Orexo's current operations are located in one leased facility situated in Uppsala, Sweden. A fire, explosion, flood or other disaster resulting in significant damage to this facility could significantly disrupt or curtail Orexo's operations and could have a material adverse effect on Orexo's business, financial condition and results of operations.

Orexo is highly dependent on successfully commercializing its product candidates.

The research, development and management resources of Orexo are dedicated to a number of product candidates, several of which are not expected to be commercially available for the foreseeable future, if at all. If Orexo experiences significant delays in completing its projects, obtains unfavorable or only marginally favorable results from its projects, or fails to achieve regulatory approval or market acceptance of its projects, Orexo's near-term ability to generate revenues, its reputation and its ability to raise additional capital could be impaired and Orexo's share price could decline.

Risks Associated with Corporate Collaborations

Orexo relies on others to conduct advanced clinical trials relating to product candidates developed by Orexo and Orexo may be unable to directly control the quality, conduct and timing of these clinical trials.

Orexo relies to a certain extent on third parties to conduct clinical trials of Orexo's product candidates. If these third parties do not carry out their contractual duties or obligations or meet expected deadlines, if the third parties need to be replaced or if the quality or accuracy of the clinical data they obtain is compromised due to failure to adhere to Orexo's clinical protocols or for other reasons, planned clinical trials may be extended, delayed or terminated. Any extension, delay or termination of Orexo's clinical trials would have a negative impact on the business of the Company and its ability to license or commercialize its products.

Orexo depends on, and is expected to continue to depend on, collaborating partners to develop, conduct clinical trials with, obtain regulatory approvals for, and manufacture, market and sell some of Orexo's product candidates, and these collaborations may not be successful.

Orexo is relying on collaborating partners to develop certain products based on Orexo's technology. Orexo's management intends for the Company to enter into collaborative agreements with other parties in the future relating to other product candidates. The success of Orexo depends on its ability to attract collaborating partners in the future and to enter into collaborative agreements with such partners on terms favorable to Orexo. Orexo's collaborating partners may not devote the resources necessary or may otherwise be unable to complete development and commercialization of these potential products.

The existing collaborations of Orexo and any future collaborative arrangements that Orexo seeks to enter into with third parties may not be scientifically or commercially successful. Factors that may affect the success of Orexo's collaborations include the following:

- Orexo's collaborating partners may be pursuing alternative technologies or developing alternative products, either on their own or in collaboration with others, that may be competitive with products on which they are collaborating with Orexo or which could affect Orexo's collaborating partners' commitment to the collaboration with Orexo;

- reductions in marketing or sales efforts or a discontinuation of marketing or sales of Orexo's products by its collaborating partners would reduce the royalties received by the Company, which are based on the sales of Orexo's products by the collaborator;

- Orexo's collaborating partners may terminate their collaborations with Orexo, which could make it difficult for Orexo to attract new collaborating partners or adversely affect Orexo's reputation in the business and financial communities; and

- Orexo's collaborating partners may pursue higher-priority programs or change the focus of their development programs, which could affect their commitment to Orexo.

If Orexo is unable to enter into additional collaboration agreements, Orexo may not be able to continue development of its product candidates.

Orexo's pharmaceutical development programs and the potential commercialization of its product candidates will be expensive and may require Orexo to seek additional funding. According to Orexo's business model, the Company will seek to enter into additional collaboration agreements with pharmaceutical companies to share the financial risks involved in drug development and commercialization of product candidates. Orexo may not be able to enter into future collaboration agreements, and the terms of the collaboration agreements, if any, may not be favorable to Orexo. If Orexo is not successful in its efforts to enter into a collaboration arrangement with respect to a product candidate, it may not have sufficient funds to develop the product candidate internally. If Orexo does not have sufficient funds to develop its product candidates, Orexo will not be able to bring these product candidates to market

and generate revenues. This would adversely affect Orexo's business. In addition, the inability to enter into collaboration agreements could delay or preclude the development, manufacture and/or commercialization of a product candidate and could have a material adverse effect on Orexo's financial condition and results of operations as revenues from product candidate licensing arrangements could be delayed or Orexo may elect not to commercialize the product candidate.

Orexo has limited sales and marketing infrastructure and experience, and may depend significantly on third parties that may not successfully commercialize Orexo's products.

Orexo has limited sales and marketing experience and limited distribution infrastructure. For product candidates with larger target markets, Orexo plans to rely significantly on sales, marketing and distribution agreements with third parties. Orexo may not be able to enter into such arrangements on terms that are favorable to Orexo, if at all. In addition, Orexo may have limited or no control over the sales, marketing and distribution activities of these third parties. In addition, any revenues Orexo receives in connection with such collaborations would depend upon the efforts of its collaborators, which may not be adequate due to lack of attention or resource commitments, management turnover, change of strategic focus, business combinations, their inability to comply with regulatory requirements or other factors outside of Orexo's control. Depending upon the terms of the collaboration, the remedies Orexo has against an under-performing collaborator may be limited. If Orexo or a partner were to terminate a relationship, it may be difficult or impossible to find a replacement collaborator on acceptable terms, if at all.

If Orexo decides to establish its own sales organization for any of its products in selected European markets including the Nordic region, this will increase the Company's costs significantly.

Orexo does not have any large-scale manufacturing capacity and must rely on third parties to manufacture its products or incur significant costs to develop such capacity.

Orexo currently relies on in-house production of the Company's product candidates for formulation development and clinical trial purposes and Orexo's management expects the Company to continue to do so in the future. Although several of Orexo's employees have extensive experience of large-scale manufacturing of pharmaceuticals, Orexo does not have the capacity to handle large-scale manufacturing in-house. Orexo's management does not currently intend to develop any such manufacturing capacity as it deems it preferable to outsource such production. Orexo has not to date entered into any long-term commercial supply agreements. Therefore, to commercialize its current product candidates, Orexo will need to contract for the necessary large-scale manufacturing capabilities. Only a limited number of manufacturers can supply certain pharmaceuticals. In addition, the manufacturing process for any of Orexo's products is highly regulated and Orexo will need to contract with manufacturers that can meet the relevant regulatory agencies' requirements on an ongoing basis. Orexo may experience difficulty in obtaining adequate manufacturing capacity for its needs. If Orexo is unable to obtain or maintain contract manufacturing of its future products, if any, or to do so on commercially reasonable terms, Orexo may not be able to successfully commercialize its products.

To the extent that Orexo enters into manufacturing arrangements with third parties, Orexo will be dependent upon these third parties to perform their obligations in a timely manner and consistent with regulatory requirements. If third-party manufacturers with whom Orexo contracts for large-scale production fail to perform their obligations, Orexo may not be able to meet commercial demands for its products.

Risks Associated with Regulatory Issues

Orexo and its collaborating partners are highly dependent on obtaining regulatory approvals required to market and sell Orexo's product candidates.

Orexo and its collaborating partners will not be able to market any of the Company's products in the European Union, the United States or in any other country without first obtaining the requisite marketing approval from the appropriate regulatory agencies. The regulatory process to obtain market approval for a new pharmaceutical can take many years and usually requires the outlay of significant financial and other resources.

If Orexo and its collaborating partners do not receive required regulatory approval or clearance to market Orexo's product candidates, the Company's business, financial condition and results of operations could be materially adversely affected.

Orexo's facilities and processes, and those of Orexo's collaborating partners, are subject to regulatory approvals, which may delay or disrupt Orexo's operations.

Following regulatory approval of any of its product candidates, Orexo and its collaborating partners will be subject to continuing regulatory obligations such as safety reporting requirements and additional post-marketing obligations, including regulatory oversight of the promotion and marketing of its products. In addition, Orexo or its third-party manufacturers will be required to adhere to regulations setting forth current good manufacturing practices. These regulations cover all aspects of the manufacturing, testing, quality control and record keeping relating to Orexo's product candidates. Furthermore, Orexo or its third-party manufacturers must pass a pre-approval inspection of manufacturing facilities by the regulatory authorities before obtaining marketing approval and will be subject to periodic inspection by these regulatory authorities. Such inspections may result in compliance issues that could prevent or delay marketing approval, or require the expenditure of financial or other resources to address. If Orexo fails to comply with applicable regulatory requirements, Orexo may be subject to fines, suspension or withdrawal of regulatory approvals, product recalls, seizure of products, operating restrictions and criminal prosecution, which could adversely affect the business and financial condition of Orexo.

Certain of Orexo's product candidates contain controlled substances.

The active compounds in OX 20 and OX 22 are classified as controlled substances in many jurisdictions. Orexo's future products may also contain controlled substances. The manufacture, shipment, export, sale and use of these products is subject to a high degree of regulation and accountability. In the United Sates, controlled substances are regulated by the U. S. Drug Enforcement Agency (the "DEA"). The DEA regulates chemical compounds as Schedule I, II, III, IV or V substances, with Schedules I and II substances considered to present the highest risk of substance abuse and Schedule V substances the lowest risk. Fentanyl, the active compound in OX 20, is listed by the DEA as a Schedule II substance, and the active compound in OX 22 is listed as a Schedule IV substance. As controlled substances, the manufacture, shipment, export, sale and use of these products is subject to a high degree of regulation and accountability. These regulations are also imposed on prescribing physicians and other third parties, making the use of such products relatively complicated and expensive. For example, all regular Schedule II drug prescriptions must be signed by a physician and may not be refilled. In addition, the DEA has expressed specific concerns to the U. S. Food and Drug Administration (the "FDA") regarding the potential for abuse of the drug fentanyl, and there can be no assurance that the DEA will not seek specific restrictions on the marketing of certain fentanyl products, including OX 20. Orexo's future products may also contain compounds regulated by the DEA. In some cases, products containing controlled substances have generated public controversy which, in extreme cases, has resulted in further restrictions on marketing or even withdrawal of regulatory approval. In addition, negative publicity may bring about rejection of the product by the medical community. If the DEA or FDA withdrew the approval of, or placed additional significant restrictions on, the marketing of any of Orexo's products, Orexo's business could be materially and adversely affected.

If Orexo or its third-party manufacturers or service providers fail to comply with laws and regulations, Orexo could be subject to enforcement actions, which could affect Orexo's ability to market and sell its products and harm the Company's reputation.

If Orexo or its third-party manufacturers or service providers fail to comply with applicable laws or regulations, Orexo could be subject to enforcement actions, which could affect its ability to develop, market and sell its products successfully and which could harm Orexo's reputation and result in lower acceptance of its products by the market. These enforcement actions include: product seizures, voluntary or mandatory recalls, voluntary or mandatory patient or physician notification, withdrawal of product approvals, restrictions on, or prohibitions against, marketing Orexo's products, fines, restrictions on importation of Orexo's products, injunctions, civil and criminal penalties, suspension of review, refusal to approve pending applications, or withdrawal of approval.

The manufacture and storage of pharmaceutical and biological products are subject to environmental regulation and risk.

Because of the chemical ingredients of pharmaceutical products and the nature of their manufacturing process, the pharmaceutical industry is subject to extensive environmental regulation and to the risk of incurring liability for damages or costs of remedying environmental problems. There can be no guarantee that Orexo will be able to obtain the operating licenses necessary to conduct the Company's business. In addition, if Orexo fails to comply with environmental regulations relating to the proper use, discharge or disposal of hazardous materials or otherwise fails to comply with conditions attached to operating licenses, such licenses could be revoked and Orexo could be subject to criminal sanctions and substantial liability or could be required to suspend or modify its operations.

Environmental laws and regulations can require Orexo to undertake or pay for investigation, clean-up and monitoring of environmental contamination identified at facilities that Orexo owns or operates or that Orexo has formerly owned or operated. Further, they can require Orexo to undertake or pay for such measures at offsite locations where Orexo may have transported hazardous substances for disposal. These obligations are often imposed without regard to fault. In the event Orexo is found to have violated environmental laws or regulations, Orexo's reputation would be harmed and Orexo might incur substantial monetary liabilities.

Legislative or regulatory reform of the healthcare system may affect Orexo's operations and profitability.

In many jurisdictions affecting Orexo's business, there have been a number of legislative and regulatory proposals to change the healthcare system in ways that could affect the ability of Orexo to conduct its operations profitably. The potential for adoption of these proposals affects or will affect Orexo's ability to raise capital, obtain additional collaborating partners and market its products. Orexo's results of operations could be adversely affected by future healthcare reforms.

The success of Orexo depends upon the eligibility of its products for reimbursement through private and government sponsored healthcare payment systems. Reimbursement practices vary significantly by country, with certain countries requiring products to undergo a lengthy regulatory review in order to be eligible for government reimbursement. In addition, healthcare cost containment efforts are prevalent in many of the countries in which Orexo's products may be commercialized, and these efforts are expected to continue in the future, possibly resulting in the adoption of more stringent reimbursement levels and reimbursement eligibility standards for pharmaceuticals. Any developments in the potential markets of Orexo that eliminate or reduce reimbursement rates for Orexo's products could have an adverse effect on the ability of Orexo to sell its products or cause its customers to use less expensive products in these markets.

Risks Associated with Orexo's Intellectual Property

If Orexo is not able to obtain and enforce patent protection for its technologies and product candidates, the Company's ability to develop and license or commercialize such product candidates will be harmed and Orexo may not be able to operate its business profitably.

The success of Orexo depends, in part, on its ability to protect methods and technologies that Orexo develops under patent and other intellectual property laws of many countries, so that Orexo can prevent others from using its inventions and information. Since certain patent applications are confidential until patents are issued, third parties may have filed patent applications for technology covered by Orexo's pending patent applications without Orexo being aware of such applications, and Orexo's patent applications may not have priority over patent applications of others, if any.

The strategy of Orexo depends on its ability to rapidly identify and seek patent protection for its technologies and product candidates. This process is expensive and time-consuming, and Orexo may not be able to file and prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. Despite Orexo's efforts to protect its rights, unauthorized parties may be able to obtain and use information that Orexo regards as proprietary. The mere issuance of a patent does not guarantee that it is valid or enforceable, so even if Orexo obtains patents, they may not be valid or enforceable against third parties.

The pending patent applications of Orexo may not result in issued patents. The patent position of pharmaceutical or biotechnology companies, including Orexo, is generally uncertain and involves complex legal and factual considerations. The standards that patent offices in different countries use to grant patents are not always applied predictably or uniformly and may be changed. Neither is there any uniform, worldwide policy regarding the subject matter and scope of claims granted or allowable in pharmaceutical or biotechnology patents. Third parties may be able to design around Orexo's issued patents or independently develop products having effects similar or identical to Orexo's patented product candidates. Consequently, Orexo does not know the degree of future protection for its proprietary rights or the breadth of claims allowed under any patents issued to Orexo or to others.

If Orexo becomes involved in litigation or other proceedings to enforce its patent rights or to defend itself against claims relating to infringement by Orexo of third-party intellectual property rights, Orexo could incur substantial costs and expenses or substantial liability for damages, or be required to stop its product development and commercialization efforts for one or several of its products.

A third party may sue Orexo for infringing on its patent rights. Likewise, Orexo may need to resort to litigation to enforce a patent issued to Orexo or to determine the scope and validity of third-party proprietary rights. The cost to Orexo of any litigation or other proceeding relating to intellectual property rights, even if resolved in Orexo's favor, could be substantial, and the litigation could also divert the efforts of Orexo's management. Some of Orexo's competitors may be able to sustain the costs of complex patent litigation more effectively than Orexo because they have substantially greater resources. Uncertainties resulting from the initiation and continuation of any litigation could limit Orexo's ability to continue its operations.

If any party should claim that Orexo's creation or use of technologies infringes upon such party's intellectual property rights, Orexo might be forced to pay damages, if Orexo is found to have infringed on such party's patent rights. In addition to any damages Orexo might have to pay, a court could require Orexo to stop the infringing activity. Moreover, any legal action against Orexo or its partners claiming damages and seeking to enjoin commercial activities relating to the affected products and processes could, in addition to subjecting Orexo to potential liability for damages, require Orexo or its partners to obtain a license in order to continue to manufacture or market the affected products and processes. Such license required under a third-party patent may not be made available on commercially acceptable terms, if at all. In addition, some licenses may be non-exclusive, and therefore, Orexo's competitors may have access to the same technology as that licensed to Orexo. If Orexo fails to obtain a required license or is unable to design around a patent, Orexo may be unable to effectively market some of its technologies and product candidates, which could limit the Company's ability to generate revenues or achieve profitability and possibly prevent Orexo from generating revenues sufficient to sustain its operations.

If Orexo is unable to protect the confidentiality of its trade secrets and know-how, the value of its technology and product candidates will be adversely affected.

Orexo relies upon unpatented trade secrets, know-how and continuing technological innovation to develop and maintain its competitive position. Orexo's failure to protect its trade secrets, know-how and techniques may undermine its competitive position and adversely affect the value of Orexo's products and product candidates.

Risks Associated with the Offering

An active, liquid trading market for Orexo's shares may not develop.

Before the offering, there has been no public market for Orexo's shares. Orexo's shares have been approved for listing on the O-list of the Stockholm Stock Exchange. However, Orexo cannot predict the extent to which investor interest in Orexo will lead to the development of a trading market for its shares or how the shares will trade in the future.

The price of Orexo's shares may decline after the offering.

The initial offering price of the shares was determined by book building and was based on several factors, but without the benefit of a prior public market trading. This negotiation was based upon factors that may not be

indicative of the future market performance of the shares. Accordingly, the share price after the offering may vary substantially from the initial public offering price.

Orexo's share price may fluctuate significantly in response to factors that are beyond Orexo's control. Such factors include: publicity regarding actual or potential clinical results relating to products under development by Orexo's competitors or Orexo; delay or failure in initiating, completing or analyzing formulation development studies or clinical trials or unsatisfactory design or results of these tests; receipt or rejection of regulatory approvals by Orexo's manufacturers, suppliers, distributors, competitors or Orexo; announcements of technological innovations or new commercial products by Orexo's competitors or Orexo; developments concerning proprietary rights, including patents; developments concerning Orexo's collaborations; regulatory developments in Sweden and in foreign countries; economic or other crises and other external factors; period-to-period fluctuations in Orexo's revenue and other results of operations; and changes in financial estimates by securities analysts.

The stock market in general has historically experienced strong price and volume fluctuations. The market prices of securities of many pharmaceutical, biotechnology and other life sciences companies can be volatile, and have experienced fluctuations that sometimes have been unrelated or disproportionate to the operating performance of these companies. For example, Orexo's share price could be adversely affected if pharmaceuticals developed by other pharmaceutical, biotechnology and other life sciences companies are not successful in clinical trials, fail to achieve regulatory approval or are not accepted in the marketplace, even though these failures may not be related to the product candidates or technology of Orexo. These broad market fluctuations could result in extreme fluctuations in the price of Orexo's shares, which could cause a decline in the value of investors' shares.

The sale of a substantial number of shares in Orexo could adversely affect the price of the Company's shares.

The Principal Shareholders will not, for a period of 180 days from the first day of listing of Orexo's shares on the Stockholm Stock Exchange, and the Founders and Orexo's directors and officers will not, for a period of 360 days from the first day of listing of Orexo's shares on the Stockholm Stock Exchange, without the prior written consent of the managers, whether directly or indirectly, offer, sell or agree to sell, pledge or in any other way grant or transfer shares in Orexo (or securities convertible into or exchangeable or exercisable for Orexo's shares). Thereafter, these persons will be free to sell their Orexo shares.

Orexo's share price could decline as a result of sales of its shares in the market after the offering, or the perception that these sales could occur. These sales also might make it difficult for Orexo to sell equity securities in the future at a time and at a price that Orexo deems appropriate.

Pre-emptive rights may not be available to U. S. holders.

Under Swedish law, prior to the issuance of any new shares for cash, Orexo must offer holders of its shares pre-emptive rights to subscribe and pay for a sufficient number of shares to maintain their existing ownership percentages unless otherwise resolved at a general meeting of shareholders. U. S. holders of Orexo shares may not be able to exercise pre-emptive rights for their shares unless a registration statement under the U. S. Securities Act is effective with respect to such rights or an exemption from the registration requirements of the U. S. Securities Act is available. The decision of Orexo to file a registration statement will depend on the costs and potential liabilities associated with any such registration statement, as well as the perceived benefits to the U. S. holders of its shares to exercise their pre-emptive rights and any other factors Orexo considers appropriate at the time. To the extent that holders of shares are not able to exercise their pre-emptive rights in respect of the shares in any rights offering by Orexo, their proportional interests in Orexo will be reduced.

The Principal Shareholders will continue to have substantial control over Orexo after the offering.

Upon completion of the offering, a total of 13,272,250 shares will be outstanding and the Principal Shareholders will beneficially own and control, in the aggregate, approximately 36.9% of all issued and outstanding shares in Orexo before dilution caused by the exercise of warrants and approximately 33.6% after dilution resulting

from exercise of all issued warrants. Consequently, the Principal Shareholders will be able to influence the management and policies of Orexo, with respect to, among other things, any matters submitted to a vote of all of the shareholders.

Orexo has never paid dividends, and Orexo is not anticipated to pay dividends in the foreseeable future.

Orexo has paid no dividends on any of its shares to date, and the board of directors of Orexo currently intends to retain Orexo's future earnings to fund the development and growth of Orexo's business. In addition, the terms of any future debt or credit facility may preclude Orexo from paying any dividends. As a result, capital appreciation, if any, of Orexo's shares will be the sole source of gain for prospective investors for the foreseeable future.

Orexo will incur social security expenses as a result of the stock option plans.

Orexo has implemented stock option plans entitling the option holders to an aggregate of 490,750 shares in the Company (adjusted for a 250:1 share split, which has been implemented in connection with the offering). The Company has sought to hedge, for cash flow purposes but not for accounting purpose, social security expenses that may be incurred as a result of a difference between the strike price of such options and the market value of the Orexo share at the time of exercise. The hedge has been established by issuing, to one of Orexo's subsidiaries, warrants that may be sold in order to cover the negative cash flow resulting from the social security expenses incurred by the Company. There can be no guarantee that the hedge arrangement will be fully effective. In addition, for accounting purposes, Orexo is required to account for social security expenses as the established market value of the Company's shares increases. At the offering price of SEK 90 per share, the Company will have to record additional social security expenses of approximately SEK 2.9 million immediately and SEK 1.3 million during the remaining vesting periods of the options. In addition, the implementation of IFRS from January 1, 2005 will require that the Company record additional personnel expenses during the vesting period depending on the market value of the options at the grant date. See the section entitled "Effects of the Application of IFRS".

Orexo may be treated as a passive foreign investment company.

The Company may have been a passive foreign investment company, or PFIC, in prior years. The Company believes that, based on the method for determining PFIC status that is used for publicly traded companies, it should not be treated as a PFIC for 2005. However, such determination could change in the future if the market value of the Company's shares were to change.

If Orexo is treated as a PFIC, investors that are United States persons, as defined in the U. S. Internal Revenue Code of 1986 as amended, may be subject to adverse U. S. federal income tax consequences on a disposition or constructive disposition of Orexo shares and on the receipt of certain distributions. U. S. investors should consult their own advisors concerning the U. S. federal income tax consequences that would apply to them if Orexo were a passive foreign investment company and certain U. S. federal income tax elections that may help to minimize adverse U. S. federal income tax consequences. See the section entitled "Taxation – Passive Foreign Investment Company Rules. "

Internal Revenue service circular 230 disclosure

Pursuant to internal revenue service circular 230, Orexo hereby informs you that the description set forth herein with respect to U. S. federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the U. S. internal revenue code. Such description was written to support the marketing of the shares. This description is limited to the U. S. federal tax issues described herein. It is possible that additional issues may exist that could affect the U. S. federal tax treatment of an investment in the shares, or the matter that is the subject of the description noted herein, and this description does not consider or provide any conclusion with respect to any such additional issues. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Risks Associated with Orexo's Financial Statements

It would not be possible for Orexo's auditors to express an audit opinion on Orexo's special purpose preliminary consolidated financial information under U. S. GAAS or in accordance with auditing standards of the Public Company Accounting Oversight Board.

The opinion on the special purpose preliminary consolidated financial information on page F-44 is included in this offering circular solely to comply with the listing requirements of Stockholm Stock Exchange. The audit of this information was performed using Auditing Standard in Sweden (Sw. *Revisionsstandard i Sverige, RS*). None of the financial information, including the special purpose preliminary consolidated financial information, in this document has been audited in accordance with auditing standards generally accepted in the United States of America ("U. S. GAAS") or auditing standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). U. S. GAAS and the auditing standards of the PCAOB do not provide for the expression of an opinion on accounting standards which have not been finalized and are still subject to modification. Accordingly, it would not be possible to express an opinion on the special purpose preliminary consolidated financial information under U. S. GAAS or the auditing standards of the PCAOB. In addition, there could be other differences between Auditing Standards in Sweden (*Sw. Revisionsstandard i Sverige*) and those required by U. S. GAAS or the auditing standards of the PCAOB. Potential investors should consult their own professional advisors to gain an understanding of the special purpose preliminary consolidated financial information contained herein and the implications of differences between the auditing standards noted herein.

Orexo has prepared financial information based on IFRS. This IFRS information may change by the time Orexo prepares its first annual financial statements in accordance with IFRS as of December 31, 2005.

The Company has prepared, and included in this offering circular, preliminary financial information as of December 31, 2004 and for the year, then ended in accordance with the basis set out in Note 1 and 2.1 of the special purpose financial information, included in this offering circular, which describes how IFRS has been applied to the Company's financial information. The transition to IFRS includes assumptions made by Orexo about the standards and interpretations expected to be effective, and the policies expected to be adopted, by the time Orexo prepares its first set of IFRS financial statements as of December 31, 2005. Orexo believes that such financial information provides meaningful information, but such financial statements do not include all information required by IFRS. Although the special purpose financial information is based on Orexo's best knowledge of expected standards and interpretations, and current facts and circumstances, this may change. For example, amended or additional standards or interpretations may be issued by the International Accounting Standards Board. Therefore, until the Company prepares its first full set of comparative IFRS financial statements and establishes its transition date as defined by IFRS 1, the possibility cannot be excluded that the preliminary IFRS financial information included in this offering circular may have to be adjusted.

BACKGROUND AND REASONS FOR THE OFFERING

Orexo's aim as a product based drug delivery company is to retain optimal commercial value of the Company's product candidates by advancing them through all or parts of the clinical phase prior to entering into partnerships. Orexo is considering establishing its own sales organization for the commercialization of its products in selected European markets including the Nordic region. Orexo's board of directors believes that the development of Diabact® UBT and OX 20 and the partnership agreements related to these products demonstrate that the Company's business model enables it to achieve a significant return on its investment in developing product candidates. Therefore, Orexo believes it is important to secure additional resources to enable it to conduct several development projects in parallel and to advance projects to the regulatory review phase, before partnering the products, as well as to broaden its product portfolio.

Orexo's board of directors expects Orexo to achieve profitability in terms of positive cash flow from operating activities at the earliest in the end of 2007, based on, among other things, the assumption that milestone payments under the license agreements with Endo Pharmaceuticals and Kyowa Hakko relating to OX 20 are received according to plan and that OX 22 is outlicensed for at least the North American market. See the section entitled "Business – OX 20 – Treatment of Acute Pain in Cancer Patients " and "– OX 22 – Treatment of Insomnia". Based on current strategy, development plans, terms of payments under license agreements and pharmaceutical market conditions, the existing funds and the expected proceeds from the offering are expected to be sufficient to finance Orexo's operations for at least the next 24 months.

In connection with the offering, Orexo has applied for a listing of its shares on the O-list of the Stockholm Stock Exchange. The listing has been approved on the condition that the applicable requirements for the distribution of Orexo's shares are met. The principal reasons for the listing, in addition to funding Orexo's existing capital requirements, are to improve the Company's access to the capital markets for future needs, to enhance collaborating partner, customer, supplier, investor and media recognition of the Company and to increase Orexo's ability to attract new employees and retain its current employees.

EXCHANGE RATE INFORMATION AND REGULATIONS

Exchange Rate Information

The following table sets forth, for the periods and dates indicated, certain information concerning the exchange rates for SEK to EUR, based on information published by Reuters Group PLC. No representation is made that SEK amounts have been, could have been or could be converted into EUR, or vice versa, at such exchange rates or at any other rate.

	SEK per one EUR			
Year ended December 31	Period End[1)]	Average Rate[2)]	High[3)]	Low[3)]
2002	9.1168	9.1565	9.5400	8.9814
2003	9.0675	9.1197	9.3060	8.8485
2004	9.0175	9.1221	9.2826	8.8963
2005 (through September 30, 2005)	9.3405	9.2199	9.4770	9.0040

1) Represents the exchange rate on the last business day of the relevant period.

2) Represents the average of the close bid exchange rates on every business day during the relevant period.

3) Represents the high or low of the close bid exchange rates on every business day during the relevant period.

The following table sets forth, for the periods and dates indicated, certain information concerning the exchange rate for SEK to USD based on information published by Reuters Group PLC. No representation is made that SEK amounts have been, could have been or could be converted into USD, or vice versa, at such exchange rates or at any other rate.

	SEK per one USD			
Year ended December 31	Period End[1)]	Average Rate[2)]	High[3)]	Low[3)]
2002	8.6815	9.7067	10.7119	8.6815
2003	7.1939	8.0680	8.8003	7.1939
2004	6.6522	7.3401	7.7513	6.5961
2005 (through September 30, 2005)	7.7800	7.3113	7.9575	6.6625

1) Represents the exchange rate on the last business day of the applicable period.

2) Represents the average of the close bid exchange rates on every business day during the relevant period.

3) Represents the high or low of the close bid exchange rates on every business day during the relevant period.

Exchange Control Regulations in Sweden

There are currently no foreign exchange control restrictions, other than in certain national crisis situations, that would restrict the payment of dividends to a shareholder outside Sweden, and there are currently no restrictions that would affect the right of shareholders who are not residents of Sweden to dispose of their shares and receive the proceeds from a disposal outside Sweden. There is no maximum transferable amount either to or from Sweden, although transferring banks are required to report to the Swedish tax authorities any payments to or from Sweden exceeding SEK 150,000. Such information may also be forwarded to authorities in the countries where the holders of shares are resident.

USE OF PROCEEDS

Orexo's management expects the Company to receive net proceeds from the issue of new shares in the offering of approximately SEK 301 million, after deducting underwriting commissions and transaction costs. Orexo currently intends to use the net proceeds from the offering to fund:

- the development of the Company's current portfolio and pipeline including:
  - the potential submission of a registration application for OX 22 to the FDA in the United States;
  - the clinical documentation of additional indications for OX 22;
  - the expansion of the development program for OX 17;
  - the accelerated development of OX 19 and OX 40;
  - the addition of two new product candidates to the development portfolio in the next12 to 24 months;
  - the documentation of selected products to the regulatory review phase;
- the establishment of a sales organization, initially for OX 20, in selected European markets including the Nordic region;
- the expansion of the Company's research and development, in-house laboratory infrastructure and clinical capacity; and
- working capital, capital expenditures and other general corporate purposes.

A portion of the net proceeds in the offering is expected to be used for the establishment of Orexo's own sales organization for OX 20 in selected European markets including the Nordic region. However, Orexo has identified alternative uses for the net proceeds from the offering in the event Orexo's management decides that the commercialization of OX 20 may be pursued in a financially more attractive manner than the establishment of its own sales organization. Should Orexo decide not to establish its own sales organization or to establish a different sales organization than as described above, the proceeds will be used to further accelerate the development of the Company's product candidates and to broaden its development portfolio.

Orexo may also use a portion of the proceeds for the acquisition of, or investment in, companies, technologies, products or assets that complement its business. Orexo is not currently a party to any agreements to enter into any potential acquisitions or investments. For most of the areas listed above, Orexo has not determined the amounts it plans to spend or the timing of these expenditures. As a result, Orexo's management will have broad discretion to allocate the proceeds of the offering.

The amounts and timing of Orexo's actual expenditures will depend upon numerous factors, including the timing of the completion of clinical trials, the timing of regulatory submissions and any terms or conditions imposed as a condition of any regulatory approval of Orexo's product candidates, Orexo's product development and commercialization efforts for all Orexo's projects, the amount of proceeds actually raised in the offering, the amount of cash generated by Orexo's operations and the extent of competition facing Orexo.

Orexo will not receive any proceeds from the sale of Orexo shares by the Founders.

DIVIDEND POLICY

The current intention of Orexo's board of directors is for the Company to retain earnings to fund future growth and the operation of the business and, accordingly, Orexo does not anticipate paying any cash dividends in the foreseeable future. However, the shares in the offering will share proportionately on a per share basis in all dividends and other distributions, if any, declared by Orexo and will be eligible for dividends, if any, declared in respect of the fiscal year ending December 31, 2005, and subsequent periods.

For Swedish companies, if a dividend is to be declared, it must be proposed by the board of directors, except in certain limited circumstances, and be approved by the annual general meeting of shareholders. In deciding whether to propose a dividend and in determining the dividend amount, the board of directors will take into account contractual, legal and regulatory restrictions on the payment of dividends by Orexo to its shareholders, or by its subsidiaries to Orexo, and such other factors as Orexo's board of directors may deem relevant. It is the intention of the board of directors not to propose any dividend in respect of the fiscal year ending December 31, 2005.

There can be no assurance that in any given year a dividend will be proposed or declared at all.

CAPITALIZATION

The following table sets forth Orexo's cash and bank balances and short-term investments and total capitalization, as well as its net debt and net debt/equity ratio, as of September 30, 2005 (i) on an actual basis and (ii) as adjusted to reflect the consummation of the offering. This table should be read in conjunction with Orexo's consolidated financial statements and related notes thereto and the section entitled "Operating and Financial Review and Prospects", included elsewhere in this offering circular.

	As of September 30, 2005		
	Actual (unaudited)	As adjusted for the offering[1)]	
	(SEK million)		(EUR million)
Cash and bank balances and short-term investments	28.6	329.6	35.3
Total interest-bearing debt	–	–	–
Shareholders' equity	68.5	369.5	39.6
Total capitalization	68.5	369.5	39.6
Net debt	(28.6)	(329.6)	(35.3)
Net debt/equity ratio, %	(41.7)	(89.2)	(89.2)

1) Adjusted to reflect the receipt of the net proceeds from the offering of approximately SEK 301 million, and after deducting offering expenses amounting to approximately SEK 32 million.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

In 2002, Orexo changed its fiscal year from a fiscal year ending April 30 to a fiscal year following the calendar year. In this offering circular, the Company has included its consolidated financial statements for the eight months ended December 31, 2002 and for the years ended December 31, 2003 and 2004, which have been audited by Öhrlings PricewaterhouseCoopers AB, independent public accountants. To facilitate a comparison between the fiscal years ended 2003 and 2004 and previous years, the Company has prepared unaudited consolidated financial data for the years ended December 31, 2000, 2001 and 2002 which have been derived from the Company's monthly accounting records on an accrual basis. Orexo's management believes that the unaudited financial information for the year ended December 31, 2002 included herein provides a more meaningful comparison to Orexo's consolidated audited financial statements for the fiscal years ended December 31, 2003 and 2004 than Orexo's audited financial statements for the eight months ended December 31, 2002.

Under a directive of the European Commission, all listed companies within the European Union must, as from January 1, 2005, prepare their consolidated financial statements in accordance with IFRS. Orexo has prepared its financial statements up to and including 2004 in accordance with Swedish GAAP. The date of transition to IFRS for Orexo is January 1, 2004, as the Company's financial statements for 2005 must include comparative financial information for 2004. Orexo will not restate its financial statements for years prior to 2004. In its first IFRS financial statements, Orexo shall comply with all versions of IFRS and IAS Standards effective at the reporting date, December 31, 2005, and as a general principle apply them retrospectively. IFRS 1, however, provides 12 specific instances in which a company may make exceptions to full retroactive application of approved standards, and in certain instances the Company has elected not to apply certain aspects of IFRS in accordance with IFRS 1 until 2005. As a result, the adjustments between IFRS and Swedish GAAP for 2004, as described in this offering circular, are not necessarily indicative of differences between Swedish GAAP and IFRS which could arise in periods after 2004.

The effect of the transition from Swedish GAAP to IFRS includes a reduction in Orexo's equity of SEK 0.3 million and SEK 4.3 million as of January 1, 2004 and December 31, 2004, respectively. In addition, the transition to IFRS resulted in a reduction of net income in 2004 by SEK 0.8 million as compared to Swedish GAAP. These adjustments result from the fact that under Swedish GAAP Orexo reported costs for stock option plans using the real value at the time the options were issued (the excess between the exercise price of the stock option and the market value of the share at the date of grant), whereas IFRS requires that Orexo record these costs using the market value of the options at the time of issue. According to both Swedish GAAP and IFRS, such costs are distributed over the vesting period for the options. For a more detailed description of the effect on Orexo of the transition from Swedish GAAP to IFRS for the nine months ended September 30, 2004, see the section entitled "Effects of the Application of IFRS" and for the fiscal year 2004, see Note 2.1 on page F-49 to Orexo's audited consolidated financial statements.

The tables below set forth (a) unaudited consolidated financial data for Orexo for the years 2000 through 2002, (b) audited consolidated financial data for the Company for the fiscal years 2003 and 2004 and (c) unaudited consolidated financial data for Orexo for the nine months ended September 30, 2004 and 2005. The consolidated financial statements have been prepared in accordance with Swedish GAAP until 2004 and for 2005 based on IFRS. Comparable financial information for 2004 have been restated. The information below should be read in conjunction with (i) the section entitled "Capitalization", (ii) the section entitled "Operating and Financial Review and Prospects" and (iii) the audited consolidated financial statements and related notes and unaudited consolidated financial statements for the nine months ended September 30, 2004 and 2005, included on pages F-3 through F-43 of this offering circular.

	Year ended December 31							Nine months ended September 30		
	Unaudited[1]			Audited				Unaudited		
	2000[2]	2001[2]	2002[2]	2003[2]	2004[2]	2004[3]	2004[3]	2004[3]	2005[3]	2005[3]
	(SEK million)						(EUR million)	(SEK million)		(EUR million)
Statement of Operations Data										
Net revenue	0.5	3.4	6.1	21.4	86.7	86.7	9.3	85.9	59.0	6.3
Cost of goods sold	(0.4)	(3.7)	(4.8)	(2.5)	(1.9)	(1.9)	(0.2)	(1.3)	(2.2)	(0.2)
Gross profit	0.1	(0.3)	1.4	18.8	84.8	84.8	9.1	84.6	56.8	6.1
Selling costs	(4.3)	(6.0)	(1.4)	(1.8)	(1.8)	(1.8)	(0.2)	(1.4)	(1.7)	(0.2)
General and administrative costs	(3.6)	(4.7)	(8.8)	(12.9)	(24.2)	(24.6)	(2.6)	(17.0)	(25.7)	(2.8)
Research and development costs	(8.1)	(13.5)	(16.8)	(30.3)	(64.0)	(64.4)	(6.9)	(38.1)	(47.6)	(5.1)
Other operating income and expenses	–	–	0.1	(0.2)	0.3	0.3	0.1	0.3	0.8	0.1
Profit from sale of subsidiaries	–	–	0.1	–	–	–	–	–	8.9	0.9
Operating profit/loss	(15.9)	(24.5)	(25.5)	(26.4)	(4.9)	(5.8)	(0.6)	28.4	(8.5)	(0.9)
Interest income and similar items	0.3	0.5	0.6	0.6	0.7	0.7	0.1	0.3	0.7	0.1
Interest expenses and similar items	–	(1.5)	(5.8)	(0.2)	(0.1)	(0.1)	0.0	(0.1)	0.0	0.0
Other financial items	–	–	–	–	(10.5)	(10.5)	(1.1)		0.0	0.0
Loss after financial items	(15.6)	(25.5)	(30.8)	(25.9)	(14.8)	(15.6)	(1.7)	28.5	(7.9)	0.1
Tax on the year's income	1.7	–	–	(1.6)	(1.2)	(1.2)	(0.1)	(1.2)	0.0	0.0
Net income/loss	**(13.9)**	**(25.5)**	**(30.8)**	**(27.6)**	**(16.0)**	**(16.8)**	**(1.8)**	**27.4**	**(7.9)**	**(0.8)**

1) For the years 2000–2002 Orexo had a fiscal year ending April 30 and prepared audited financial statements based on such fiscal year. In order to be comparable with subsequent periods, the statement of operations, cash flow statement and balance sheet information for these years as included above are presented on an unaudited basis for the years ended and as of December 31.

2) Financial statements for these periods have been prepared based on Swedish GAAP.

3) As of January 1, 2005, the Orexo group began applying IFRS in accordance with EU regulations. The preliminary effects of the transition have been reflected in Orexo's financial statements through an adjustment of shareholders' equity for 2004. Comparable financial figures for 2004 have been restated. See the section entitled "Effects of the Application of IFRS".

	As of or for year ended December 31							As of or for nine months ended September 30		
	Unaudited[1]			Audited				Unaudited		
	2000[2]	2001[2]	2002[2]	2003[2]	2004[2]	2004[3]	2004[3]	2004[3]	2005[3]	2005[3]
	(SEK million)						(EUR million)	(SEK million)		(EUR million)
Balance Sheet Data										
Intangible fixed assets	0.2	1.9	9.7	19.8	4.5	4.5	0.5	5.0	3.0	0.3
Goodwill	–	–	–	–	–	–	0.0	13.2	0.0	0.0
Tangible fixed assets	0.8	0.7	0.8	2.0	2.3	2.3	0.2	2.4	2.8	0.3
Financial assets	9.6	8.1	2.4	2.4	2.4	2.4	0.3	2.4	2.4	0.3
Inventories	4.0	3.3	2.0	1.4	1.4	1.4	0.2	2.0	2.3	0.3
Accounts receivables	0.1	0.7	0.8	1.1	1.4	1.4	0.1	1.2	52.8	5.7
Other current receivables	1.8	1.1	2.6	3.1	9.8	5.4	0.6	5.1	5.6	0.6
Cash and bank balances	31.0	6.0	14.8	15.5	84.2	84.2	9.0	111.2	28.6	3.1
Total assets	47.5	21.8	33.2	45.2	106.0	101.7	10.9	142.7	97.6	10.4
Shareholders' equity	41.3	16.0	25.5	35.9	79.4	75.1	8.0	116.4	68.5	7.3
Interest-bearing liabilities	0.1	–	–	–	–	–	–	0.0	0.0	–
Non interest-bearing liabilities	6.1	5.9	7.7	9.3	26.6	26.6	2.8	26.4	29.1	3.1
Total equity and liabilities	47.5	21.8	33.2	45.2	106.0	101.7	10.9	142.7	97.6	10.4
Cash Flow Data										
Cash flow before change in working capital	(13.4)	(20.9)	(20.4)	(22.2)	2.1	2.1	0.2	31.0	(10.3)	(1.1)
Change in working capital	(2.1)	(1.8)	0.0	0.1	13.8	13.8	1.5	13.7	(50.9)	(5.7)
Cash flow from operating activities	(15.5)	(22.7)	(20.4)	(22.1)	15.9	15.9	1.7	44.6	(61.2)	(6.8)
Acquisition of subsidiaries	–	–	–	23.2	–	–	–	–	–	–
Proceeds from sales of subsidiary	–	–	–	–	–	–	–	–	9.4	1.0
Investments in tangible fixed assets	(0.1)	(0.4)	(0.5)	(0.4)	(1.1)	(1.1)	(0.1)	(1.0)	(1.9)	(0.2)
Investments in intangible assets	(0.1)	(2.0)	(9.6)	–	–	–	–	–	–	–
Investments in financial assets	–	–	–	–	–	–	–	–	–	–
Cash flow after investment activities	(15.7)	(25.1)	(30.5)	0.6	14.8	14.8	1.6	43.6	(53.7)	(6.0)
New share issue	40.8	0.0	39.3	–	54.0	54.0	5.8	52.1	(1,9)	0.0
Cash flow after financing activities	25.1	(25.1)	8.9	0.6	68.8	68.8	7.4	95.8	(55.7)	(6.0)
Liquid funds, closing balance	**31.0**	**6.0**	**14.8**	**15.5**	**84.2**	**84.2**	**9.0**	**111.2**	**28.6**	**3.1**

1) For the years 2000–2002 Orexo had a fiscal year ending April 30 and prepared audited financial statements based on such fiscal year. In order to be comparable with subsequent periods, the statement of operations, cash flow statement and balance sheet information for these years as included above are presented on an unaudited basis for the years ended and as of December 31. However, Orexo's balance sheet information as of December 31, 2002 as presented above has been audited.

2) Financial statements for these periods have been prepared based Swedish GAAP.

3) As of January 1, 2005, the Orexo group began applying IFRS in accordance with EU regulations. The preliminary effects of the transition have been reflected in Orexo's financial statements through an adjustment of shareholders' equity for 2004. Comparable financial figures for 2004 have been restated. See the section entitled "Effects of the Application of IFRS".

	As of or for year ended December 31[1), 6)]							As of or for nine months ended September 30[1), 6)]		
	2000[2)]	2001[2)]	2002[2)]	2003[2)]	2004[2)]	2004[3)]	2004[3)4)]	2004[3)]	2005[3)]	2005[3),4)]
Net revenue growth, %.....	(94.1)	607.9	79.2	249.4	306.0	306.0	306.0	N/a	(31.3)	(31.3)
Margins and profitability										
Gross profit margin, %.....	15.4	(7.6)	22.2	88.2	97.8	97.8	97.8	98.5	96.3	96.3
Operating profit margin, %.....	(3,299.8)	(717.9)	(419.0)	(123.7)	(5.7)	(6.7)	(6.7)	33.0	(14.5)	(14.5)
Return on equity, %	Neg.	Neg.	Neg.	Neg.	Neg.	N/a[10)]	N/a[10)]	N/a[10)]	Neg.	Neg.
Capital structure										
Net working capital, SEK million.....	(0.2)	(0.7)	(2.3)	(3.7)	(14.0)	(21.2)	(2.2)	(18.0)	31.7	3.4
Net working capital/net revenues, %.....	(36.7)	(21.2)	(36.9)	(14.1)	(10.2)	(20.3)	(20.3)	(20.9)	53.7	53.7
Operating capital, SEK million	10.4	10.0	10.7	20.4	(4.8)	(9.1)	(1.0)	5.1	40.0	4.3
Capital turnover, times.....	–	0.3	0.6	1.4	11.1	N/a[10)]	N/a[10)]	N/a[10)]	2.4	2.4
Shareholders' equity, SEK million	41.3	16.0	25.5	35.9	79.4	75.1	8.0	116.4	68.5	7.3
Net debt, SEK million	(30.9)	(6.0)	(14.8)	(15.5)	(84.2)	(84.2)	(9.0)	(111.2)	(28.6)	(3.1)
Net debt/equity ratio, times	(0.7)	(0.4)	(0.6)	(0.4)	(1.1)	(1.1)	(1.1)	(1.0)	(0.4)	(0.4)
Equity/assets ratio, %.....	86.9	73.2	76.7	79.5	74.9	73.9	73.9	81.5	70.2	70.2
Interest coverage ratio, times	Neg	Neg	Neg	Neg	Neg	Neg	Neg	362.3	Neg	Neg
Employees										
Average number of employees	7	10	14	19	23	23	23	21	35	35
Of which engaged in R&D	5	7	9	12	15	15	15	16	18	18
Personnel costs, SEK million	3.9	7.3	12.0	20.6	34.7	35.2	3.8	25.2	29.7	3.2
Data per share[5)]										
Before dilution										
Average number of shares, thousands.....	2,988	4,050	4,234	7,029	8,840	8,840	8,840	8,708	9,312	9,312
Number of shares at period end, thousands	4,050	4,050	6,259	8,569	9,238	9,238	9,238	9,238	9,572	9,572
Earnings/(Loss) after tax, SEK.....	(4.7)	(6.3)	(7.3)	(3.9)	(1.7)	(1.8)	(0.2)	3.0	(0.8)	(0.1)
Shareholders' equity, SEK.....	10.2	3.9	4.1	4.2	8.6	8.1	0.9	12.6	7.2	0.8
Dividend, SEK.....	–	–	–	–	–	–	–	–	–	–
After full dilution										
Average number of shares, thousands[7)]	2,988	4,050	4,234	7,029	8,840	8,840	8,840	9,345	9,312	9,312
Number of shares at period end, thousands[7)]	4,050	4,050	6,259	8,569	9,238	9,238	9,238	9,875	9,572	9,572
Earnings/(Loss) after tax, SEK.....	(4.7)	(6.3)	(7.3)	(3.9)	(1.7)	(1.8)	(0.2)	2.8	(0.8)	(0.1)
Shareholders' equity, SEK.....	10.2	3.9	4.1	4.2	8.6	8.1	0.9	11.8	7.2	0.8
Adjusted after completion of the offering[8)]										
Number of shares at period end, thousands	–	–	–	–	12,938	12,938	12,938	–	13,272	13,272
Earnings/(Loss) after tax, SEK.....	–	–	–	–	(0.7)	(0.8)	(0.1)	–	(0.2)	(0.0)
Shareholders' equity, SEK.....	–	–	–	–	29.4	29.1	3.1	–	27.8	3.0
Offering price, SEK[9)]	–	–	–	–	90.0	90.0	9.6	–	90.0	9.6
Offering price/shareholders' equity, %[9)]....	–	–	–	–	306.1	309.3	309.3	–	323.7	323.7

1) For the years 2000–2002 Orexo had a fiscal year ending April 30 and prepared audited financial statements based on such fiscal year. In order to be comparable with subsequent periods, the statement of operations, cash flow statement and balance sheet information for these years as included above are presented on an unaudited basis for the years ended and as of December 31. However, Orexo's balance sheet information as of December 31, 2002 presented above has been audited.

2) Financial statements for these periods have been prepared based on Swedish GAAP.

3) As of January 1, 2005, the Orexo group began applying IFRS in accordance with EU regulations. The preliminary effects of the transition have been reflected in Orexo's financial statements through an adjustment of shareholders' equity for 2004. Comparable financial figures for 2004 have been restated. See the section entitled "Effects of the Application of IFRS".

4) Key ratios in this column stating monetary amounts that are denominated in SEK or SEK million in the other columns are in this column denominated in EUR and EUR million, respectively.

5) Data per share is adjusted to reflect a 250:1 share split, which has been implemented in connection with the offering.

6) The ratios for the years 2000 – 2002 and the nine months ended September 30, 2004 and 2005 have been derived from Orexo's unaudited financial statements. The ratios for the years 2003 and 2004 have been derived from Orexo's audited financial statements.

7) Due to reported losses no dilution effects arise in periods where a loss is reported.

8) Adjusted for the new issue of shares in the offering. When calculating earnings per share, the loss after tax has been adjusted to reflect the assumed effect of the receipt of the estimated net proceeds from the offering assuming that the offering was executed on January 1, 2004 and 2005 respectively, and that the Company receives an effective yearly interest rate of 2 percent on the net proceeds. Due to the Company's tax loss carry forward the interest income has not been adjusted for tax. Loss after tax has been adjusted by SEK 6.6 million for the fiscal year 2004 and SEK 4.9 million for the nine months ending September 30, 2005. When calculating shareholders' equity per share the assumed net proceeds has been added to shareholders' equity. The interest income, as calculated above, has not been included in the calculation of shareholders' equity per share.

9) The offering price is SEK 90 per share.

10) Not applicable since shareholder's equity 2003 has not been adjusted to IFRS.

Definitions of Key Ratios

The key ratios and certain other operating and per share data are defined as follows:

Average number of employees	– Average number of full-time equivalent employees during the period.
Capital turnover	– Net revenues divided by average operating capital.
Earnings/(Loss) after tax per share, before dilution	– Net income/loss for the period divided by the average number of shares calculated as a weighted average of the number of outstanding shares during the period.
Earnings/(Loss) after tax per share, before dilution	– Net income/loss for the period divided by the average number of shares calculated as a weighted average of the number of outstanding shares after dilution during the period. The calculation of dilution from warrants issued by the Company has until 2004 been made in accordance with accounting standard number 18 issued by the Swedish Financial Accounting Standards Council and from 2005 been based on IAS 33 and is based on the following assumptions: (1) all warrants with a subscription price, discounted to present value and adjusted for share splits, lower than the estimated Company market value per share at the relevant year or period end are exercised and new shares are issued, (2) the net proceeds received by the Company from the exercise of warrants is equal to the number of warrants exercised multiplied by the discounted present value of the subscription price, (3) the net proceeds is used to repurchase shares at the estimated market value per share as calculated above in (1) and, (4) the discount rate used is 5%. The increase in number of shares in the Company is thus equal to the number of shares issued from the warrants exercised less shares repurchased with the net proceeds received. IFRS (IAS 33) does not specify whether or not the subscription payment is to be calculated at present value. Orexo has elected to calculate the dilution effect on the basis of the present value of the subscription price.
Equity/assets ratio share, after dilution	– Shareholders' equity as a percentage of total assets.
Gross profit margin	– Gross profit, divided by net revenues.
Interest coverage ratio	– Profit/loss after net financial items plus financial costs divided by financial costs.
Net debt	– Current and long-term interest-bearing liabilities including pension liability, less liquid funds.
Net debt/equity ratio	– Net debt divided by shareholders' equity. A negative debt/equity ratio indicates that the liquid funds exceed the interest-bearing liabilities.
Net working capital	– Non-interest-bearing current assets less non-interest-bearing current liabilities.
Net working capital/net revenues	– Average net working capital divided by net revenues.
Offering price	– The offering prise is SEK 90 per share.
Offering price/shareholders' equity	– Offering price divided by shareholders' equity per share after dilution.
Operating capital	– The balance sheet total less non-interest-bearing liabilities and other non-interest-bearing provisions and liquid funds.
Operating profit margin	– Operating profit/loss as a percentage of net revenues.
Return on equity	– Net income divided by average equity.
Shareholders' equity per share, before dilution	– Shareholders' equity divided by the number of outstanding shares at the end of the period.
Shareholders' equity per share, after dilution	– Shareholders' equity divided by the sum of the number of outstanding shares after dilution at the end of the period. See the definition of earnings/(loss) after tax per share, after dilution for a description of the calculation of dilution.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion should be read together with the section entitled "Selected Consolidated Financial and Operating Data" as well as with the consolidated financial statements included elsewhere in this offering circular. The financial statements have been prepared in accordance with Swedish GAAP until 2004 and for 2005 in accordance with IFRS. Comparable financial information for 2004 has been restated. For the preliminary effects of the applications of IFRS on Orexo's consolidated balance sheet, consolidated statement of operations and consolidated cash flow for the financial year 2004, see the section entitled "Effects of the Application of IFRS". The following discussion includes forward-looking statements, which are subject to risks and uncertainties, that could cause actual events or conditions to differ materially from those expressed or implied by the forward-looking statements. For a discussion of some of those risks and uncertainties refer to the sections entitled "Forward-looking Statements" and "Risk Factors".

Overview

Orexo is a product based drug delivery company that develops proprietary pharmaceuticals to address areas of unmet therapeutic need. Orexo exploits its competence within clinical practice and drug development to identify and assess areas of therapeutic need that can be met by developing proprietary pharmaceuticals based on well documented pharmacologically active compounds that incorporate Orexo's drug delivery technologies.

Orexo changed its accounting year in 2002 from a fiscal year ending April 30 to a fiscal year following the calendar year. As a result, the duration of the fiscal year ending December 31, 2002 was only eight months.

For the years 2000–2002 Orexo had a fiscal year ending April 30 and prepared audited financial statements based on such fiscal year. In order to be comparable with subsequent periods, the statement of operations, cash flow statement and balance sheet information for these years as included herein are presented on an unaudited basis for the years ended and as of December 31. However, Orexo's balance sheet information as of December 31, 2002 has been audited. Orexo's management believes that the unaudited financial information for the year ended December 31, 2002 provides a more meaningful comparison to the fiscal years ended December 31, 2003 and 2004 than Orexo's audited financial statements for the eight months ended December 31, 2002.

Critical Accounting Policies

In preparing Orexo's financial statements, Orexo's management is required to apply certain accounting methods and policies that may be based on difficult, complex or subjective judgments or on estimates based on past experience and assumptions determined to be reasonable and realistic based on the related circumstances. The application of these estimates and assumptions affects the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of net revenues and expenses during the reporting period. Actual results may differ from the results derived through the application of such assumptions and estimates. The summary below highlights certain accounting policies (as applied under both Swedish GAAP and IFRS unless otherwise indicated) that require the subjective judgment of Orexo's management in making such assumptions or estimates.

Revenue Recognition

Orexo has license agreements that generally provide for non-refundable upfront-payments, license fees and/or milestone payments. A license agreement allows Orexo's partners to sell Orexo's proprietary products in a defined market during a defined time period. A development milestone payment is a payment made by a partner to Orexo upon the achievement of a pre-determined development event, as defined in the applicable agreement. License fees, upfront-payments and milestone payments are reported as revenue in accordance with the financial implications of the particular agreement. With respect to agreements pursuant to which the licensee is responsible for the activities or the work to be performed for the fulfillment of the respective milestones, revenue recognition takes place when Orexo has completed each task associated with the milestone target. Examples of such milestones are the registration of patents, conclusion of clinical trials, approval of registrations and achievement of certain sales targets. Revenue recognition in connection with such agreements is based on the premise that Orexo's future commitments and expenses for the completion of the agreements are assumed to be insignificant. No development milestone revenue is recognized until

Orexo has completed each required development milestone-related service. Upfront payments could consist of both a license fee and for example services related to technology transfer, in which case the income related to each component of the payment is divided based on the fair value of the different components of the payment.

Orexo recognizes revenue on product sales at the time of shipment, at which time title to the product is transferred and the customer bears the risk of loss.

Impairment of Long-Lived Assets

All long-lived assets, including goodwill, are evaluated for impairment yearly or at such time as events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impaired asset is written down to its estimated recoverable amount based on the information available. The recoverable amount is defined as the greater of the estimated fair value and the value in use, the latter of which is estimated by using the discounted cash flow method based on expected future cash flows. Different asset valuations may result from varying discount rates or significant differences in the estimation of expected future cash flows.

Long-lived assets, including in the case of Swedish GAAP but not IFRS, goodwill, are depreciated on a straight-line basis over their estimated useful lives. Useful lives for tangible fixed assets are estimated between three to five years for computers, machinery and other equipment. Useful lives for intellectual property is generally five years. Orexo regularly reassesses the useful life of all of its significant assets.

Research and Development

Expenses arising from research are expensed as incurred. Expenses arising from development projects are capitalized as intangible assets in the event these expenses are expected to generate future financial benefits. Other development expenses are expensed as incurred. Development costs that were previously expensed are not capitalized as assets in subsequent periods.

Stock Option Plan Compensation and Social Security Expenses

Under Swedish GAAP Orexo reported costs for stock option plans using the real value at the time the options were issued (the difference between the exercise price of the option and the market value of the share), whereas IFRS requires that Orexo record these costs using the market value of the options (as measured for example using the Black & Scholes model) at the time of issue. According to both Swedish GAAP and IFRS, such costs are distributed over the vesting period for the options. Orexo records personnel expenses related to its stock option plans as general and administrative costs, research and development costs and selling costs, depending on the position of the employee who was granted such options.

In addition, the Company is required to pay social security expenses on the gain that may arise when the options are exercised, based on the difference between the exercise price of the stock options and the market price of the underlying shares upon exercise of the stock options. The social security expenses that may arise as a result of Orexo's stock option plans have been hedged for cash flow purposes, although not for purposes of Orexo's financial statements, through the issuance of warrants to one of Orexo's subsidiaries. Under the hedge, Orexo's subsidiary would sell such warrants to compensate for social security expenses that would be payable by Orexo based upon any gain that a warrant holder would realize upon exercise of the warrants.

Results of Operations

Overview of Revenues and Operating Costs Components 2002–2004 (based on Swedish GAAP) and for the first nine months of 2004 and 2005 (based on IFRS)

Revenues

The table below sets forth (a) unaudited revenues of Orexo for 2002, (b) audited revenues of Orexo of 2003 and 2004 and (c) the unaudited revenues of Orexo for the nine months ended September 30, 2004 and 2005.

	Year ended December 31[1]			Nine months ended September 30[2]	
	Unaudited	Audited		Unaudited	
(SEK million)	2002	2003	2004	2004	2005
Revenues from Diabact® UBT	3.5	4.4	3.5	2.7	3.6
Revenues from OX 20	0.0	16.5	83.1	83.1	55.4
Other revenues	2.6	0.6	0.1	0.1	0
Total revenues	6.1	21.4	86.7	85.9	59.0

1) Financial statements for these periods have been prepared based on Swedish GAAP.
2) Financial statments for these periods have been prepared based on IFRS.

Orexo's revenues for 2002–2004 were generated primarily from sales of Diabact® UBT and license revenues from Orexo's product candidate OX 20.

Diabact® UBT is a urea breath test for the diagnosis of the stomach pathogen, Helicobacter pylori. Diabact® UBT was launched in the end of 2000 and is sold in Finland, Hong Kong, Ireland, Sweden and the United Kingdom.

OX 20 is a product candidate intended for the treatment of acute pain in cancer patients, and is Orexo's first product candidate that is based on Orexo's patented and proprietary technology for sublingual administration. Orexo licensed the marketing rights for OX 20 in Japan to Kyowa Hakko in January 2003. Under the license agreement, Orexo received an upfront payment of USD 1.0 million upon execution of the agreement and two milestone payments of USD 2.5 million in the aggregate for obtaining patent approvals and receiving a positive opinion on the clinical trial program from the Japanese regulatory agency. Pursuant to the license agreement, additional milestone payments of up to USD 5.0 million are to be paid upon completion of clinical trials and upon regulatory approval. Orexo is also entitled to receive single-digit percentage royalties based on future sales. Orexo licensed the rights to develop and market OX 20 in North America to Endo Pharmaceuticals in August 2004. Under the license agreement, Orexo received an upfront payment of USD 10.0 million upon execution of the agreement and may under the agreement receive additional payments of up to USD 61.3 million of which 6.5 million dollar were recorded as revenue in the third quarter of 2005 for achivement of a development milestone, and double-digit percentage royalties based on future sales. This revenue is expected to affect Orexo's cash flow in the fourth quarter of 2005.

For the years 2002–2004, total sales of Diabact® UBT amounted to SEK 11.4 million and the total revenues from OX 20 amounted to SEK 99.6 million, consisting of upfront and milestone payments under the license agreements with Endo Pharmaceuticals and Kyowa Hakko. In 2004, total sales of Diabact® UBT amounted to SEK 3.5 million and total license revenues from OX 20 amounted to SEK 83.1 million.

Consultancy services within regulatory affairs that Orexo has rendered to other companies are not part of the Company's business model and Orexo has undertaken consultancy work only on a limited scale on an ad hoc basis. Orexo will not pursue such work in the future.

Operating Costs

The table below sets forth (a) the components of Orexo's operating costs expressed as a percentage of total operating costs based on (i) Orexo's unaudited costs for 2002, (ii) Orexo's audited costs for 2003 and 2004 and (iii) Orexo's unaudited costs for the nine months ended September 30, 2004 and 2005 and (b) the compounded annual growth rate between 2002-2004 calculated on the basis of such costs.

	Year ended December 31				Nine months ended September 30	
	Unaudited	Audited		CAGR[1]	Unaudited	
(%)	2002[2]	2003[2]	2004[2]	2002–2004	2004[3]	2005[3]
Costs of goods sold	15.0	5.3	2.1	(36.3)	2.2	2.8
Selling costs	4.5	3.8	2.0	13.1	2.3	2.2
General and administrative costs	27.8	26.9	26.4	65.8	29.5	33.7
Research and development costs	53.2	63.5	69.8	94.9	66.2	62.3
Other operating income and expenses	–0.6	0.5	(0.3)	N/m	(0.2)	(1.0)
Total operating costs	100.0	100.0	100.0	70.0	100.0	100.0

1) The compound annual growth rate describes the year over year growth rate as though the growth had been achieved at a steady rate. The financial data used for calculating CAGR are based on Orexo's operating costs expressed in absolute numbers and not the percentage figures included in the table.
2) Financial statements for these periods have been prepared based on Swedish GAAP.
3) Financial statments for these periods have been prepared based on IFRS.

Costs of goods sold represented on average 7.5% of total operating costs for the years 2002–2004. Costs of goods sold have primarily related to sales of Orexo's product Diabact® UBT. Orexo's management believes this cost item would represent a larger share of total operating costs in the future provided that sales of Orexo's current and future products increase as expected.

Selling costs represented on average 3.4% of total operating costs for the years 2002–2004. Selling costs include marketing costs, distribution costs, commissions to distributors and costs for employees engaged in sales and marketing. Selling costs have mainly been attributable to sales of Diabact® UBT. Orexo's management believes that future selling costs will be limited provided that marketing and sales of the Company's products is undertaken by the pharmaceutical companies with which Orexo enters into license agreements. Orexo is considering establishing its own sales organization, initially for OX 20, in selected European markets including the Nordic region, which would increase the Company's selling costs significantly.

General and administrative costs represented on average 27.0% of total operating costs for the years 2002–2004. General and administrative costs include costs primarily related to Orexo's management and administrative functions. Management expects these costs to decline over time as a percentage of total operating costs.

Research and development costs constitute Orexo's largest cost item and represented on average 62.2% of total operating costs for the years 2002–2004. Research and development costs include costs for employees engaged in research and development, costs relating to research and development facilities, external costs for clinical trials, regulatory affairs and laboratory services, depreciation costs relating to equipment as well as amortization of goodwill, acquired patents and other intangible assets. Orexo has no capitalized research and development costs. Orexo's management believes that research and development costs will continue to represent a significant cost item. However, relative to total operating costs, such costs could decrease as Orexo's current and future products are commercialized, which could lead to an increase in other line items such as costs for producing, marketing and selling Orexo's products.

Other operating income and expenses represented on average –0.1% of total operating costs for the years 2002–2004. Other operating income and expenses principally relate to exchange rate differences.

Nine Months Ended September 30, 2005 and 2004 (based on IFRS)

Net revenues: Orexo's net revenues for the nine months ended September 30, 2005, were SEK 59.0 million, a decrease of 31.3% as compared to SEK 85.9 million for the nine months ended September 30, 2004. The decrease was primarily attributable to the receipt of a larger upfront-payment in connection with the license agreement with Endo Pharmaceuticals of approximately SEK 75 million (USD 10.0 million) in the nine months ended 2004, as compared to receipt of a milestone payment of approximately SEK 50 million (USD 6.5 million) in the third quarter of 2005. The sales of Diabact® UBT increased to SEK 3.6 million in the nine months ended September 30, 2005, as compared to SEK 2.7 million in the nine months ended September 30, 2004.

Costs of goods sold: Costs of goods sold were SEK 2.2 million for the nine months ended September 30, 2005, an increase of 64.8% as compared to SEK 1.3 million for the nine months ended September 30, 2004. The increase was primarily attributable to increased sales of Diabact® UBT.

Personnel expenses related to stock option plans: For the nine months ended September 30, 2005, the Company recorded an aggregate of SEK 3.5 million in personnel expenses related to stock option plans, of which SEK 2.1 million affected general and administrative costs and SEK 1.4 million affected research and development costs.

Selling costs: Selling costs were SEK 1.7 million for the nine months ended September 30, 2005, an increase of 23.3% as compared to SEK 1.4 million for the nine months ended September 30, 2004. The increase was primarily attributable to increased marketing efforts relating to the Diabact® UBT product.

General and administrative costs: General and administrative costs were SEK 25.7 million for the nine months ended September 30, 2005, an increase of 51.1% as compared to SEK 17.0 million for the nine months ended September 30, 2004. The increase was primarily due to continued development and build-up of Orexo's organization and infrastructure due in part to its plans to become a stock exchange listed company.

Research and development costs: Research and development costs were SEK 47.6 million for the nine months ended September 30, 2005, an increase of 24.9% as compared to SEK 38.1 million for the nine months ended September 30, 2004. Research and development costs comprise costs for employees, premises, external costs for clinical testing, pharmaceutical registration and laboratory services, as well as depreciation of equipment, goodwill, acquired patents and other intangible assets. Research and development costs for the period include a royalty payment of SEK 5.1 million to companies owned by two scientists involved in the development of fentanyl related products for the treatment of cancer breakthrough pain. Such compensation was recorded based on the achievement of set milestones in the third quarter of 2005. Orexo's total royalty commitments in connection with its fentanyl related products for the treatment of cancer breakthrough pain total SEK 30.0 million of which Orexo has already incurred SEK 15.1 million including the SEK 5.1 million royalty amount mentioned above.

Other operating income and expenses net: Other operating income and expenses were SEK 0.8 million for the nine months ended September 30, 2005 as compared to SEK 0.3 million for the nine months ended September 30, 2004.

Sale of subsidiary: The operating loss includes a capital gain of SEK 8.9 million that occurred in connection with Orexo's sale of its cell penetrating peptide technology through the sale of CePeP II AB.

Operating profit/loss: Orexo had an operating loss of SEK 8.5 million for the nine months ended September 30, 2005, as compared to an operating profit of SEK 28.4 million for the nine months ended September 30, 2004. The decrease was mainly attributable to lower revenues and increased costs, mainly within Orexo's administration and research and development areas, which was partly offset by revenues from the sale of a subsidiary.

Financial items net: Orexo recorded financial items net of SEK 0.7 million for the nine months ended September 30, 2005, as compared to SEK 0.2 million for the nine months ended September 30, 2004.

Taxes: Tax expenses amounted to SEK 0.0 million for the nine months ended September 30, 2005, as compared to SEK 1.2 million for the nine months ended September 30, 2004. The tax expenses for the nine months ended

September 30, 2004 constituted foreign withholding tax on the milestone payments received under the OX 20 license agreement with Kyowa Hakko, which could not be deducted from Swedish income tax.

Net income/loss: Orexo recorded a net loss of SEK 7.9 million for the nine months ended September 30, 2005, as compared to a net income of SEK 27.4 million for the nine months ended September 30, 2004. See "Operating profit/loss" for a description of the causes behind this deterioration.

Parent company: The majority of Orexo's operations are conducted through Orexo AB, the parent company of the Orexo group. Net revenues of Orexo AB for the nine months ended September 30, 2005, were SEK 59.1 million, as compared to SEK 85.9 million for the nine months ended September 30, 2004. The loss after financial items for the nine months ended September 30, 2005, was SEK 7.3 million, as compared to a profit of SEK 29.6 million for the nine months ended September 30, 2004. Investments for the nine months ended September 30, 2005, were SEK 1.9 million, as compared to SEK 1.0 million for the nine months ended September 30, 2004. As of September 30, 2005, Orexo AB had liquid funds amounting to SEK 26.5 million, as compared to SEK 83.8 million as of December 31, 2004, corresponding to a change in liquid funds of SEK 57.3 million during the nine months ended September 30, 2005.

Fiscal Year Ended December 31, 2004 and December 31, 2003 (based on Swedish GAAP)

Net revenues: Orexo's net revenues for the fiscal year ended December 31, 2004 were SEK 86.7 million, an increase of 306% as compared to SEK 21.4 million for the year ended December 31, 2003. The increase was primarily attributable to the up-front compensation of SEK 74.5 million (USD 10.0 million) received in conjunction with the signing of the license agreement with Endo Pharmaceuticals for the sale of OX 20 with respect to the North American market, of which SEK 71.5 million was reported as revenue obtained during the period. In accordance with the Company's expectations, Orexo received aggregate payments under the OX 20 license agreement with Kyowa Hakko of SEK 11.6 million for the fiscal year ended December 31, 2004, as compared to SEK16.5 million for the year ended December 31, 2003.

Costs of goods sold: Costs of goods sold were SEK 1.9 million in fiscal 2004, a decrease of 24% as compared to SEK 2.5 million for 2003. The decrease was primarily due to lower sales volume of Diabact® UBT.

Personnel expenses related to stock option plans: In 2004, the Company recorded in total SEK 6.9 million in personnel expenses related to stock option plans of which SEK 4.1 million affected general and administrative costs, SEK 2.7 million affected research and development costs and SEK 0.1 million affected selling costs.

Goodwill: As of December 31, 2004, the Company wrote down its consolidated goodwill by SEK 10.4 million. This goodwill represented residual goodwill attributable to the acquisition of CePeP AB ("CePeP"). Since the Company decided to focus on other technologies, this technology was not expected to generate financial advantages for the Orexo group in the foreseeable future. The total amounts of goodwill amortized and written down under Swedish GAAP correspond to the total amount of goodwill written down under IFRS and thus there was no difference in the effect of write-downs of goodwill on Orexo's operating results.

Selling costs: Selling costs were SEK 1.8 million in fiscal 2004, as compared to SEK 1.8 million for 2003. As described above, of the total personnel expenses related to stock option plans in 2004, SEK 0.1 million affected selling costs. The effect of the transition from Swedish GAAP to IFRS on selling costs in 2004 was SEK 0.0. See the section entitled "Effects of the application of IFRS".

General and administrative costs: General and administrative costs were SEK 24.2 million in fiscal 2004, an increase of 88.2% as compared to SEK 12.9 million for 2003. The increase was attributable to costs associated with the OX 20 license agreement and nonrecurring costs attributable to the hiring of a new Chief Executive Officer. A higher valuation of the Company's shares resulted in an increase in provisions for payroll overhead and other expenses attributable to the Company's stock option plans. As described above, of the total personnel expenses related to stock option plans in 2004, SEK 4.1 million affected general and administrative costs. The effect of the transition from

Swedish GAAP to IFRS on general and administrative costs in 2004 was an increase of SEK 0.4 million. See the section entitled "Effects of the application of IFRS".

Research and development costs: Research and development costs were SEK 64.0 million in fiscal 2004, an increase of 111.2% as compared to SEK 30.3 million for 2003. The increase was primarily due to the expansion of the product portfolio through the addition of product candidates that are in different development phases and clinical studies for OX 20 and OX 22, as well as to certain royalty payments made by Orexo attributable to OX 20, which increased by SEK 7.0 million to SEK 8.5 million. In addition, Orexo hired four new employees in the research and development area to enable the Company to manage additional projects. As described above, of the total personnel expenses related to stock option plans in 2004, SEK 2.7 million affected research and development costs. The effect of the transition from Swedish GAAP to IFRS on research and development costs in 2004 was an increase of SEK 0.4 million. See the section entitled "Effects of the application of IFRS".

Other operating income and expenses net: Other operating income and expenses in fiscal 2004 amounted to income of SEK 0.3 million, as compared to an expense of SEK 0.2 million for 2003. The increase was due to both increased exchange rate gains and reduced exchange rate losses.

Operating profit/loss: Orexo had an operating loss of SEK 4.9 million in 2004 as compared to a loss of SEK 26.4 million for 2003. The improvement was attributable to the sharp gain in revenue, which was partly offset by increased research and development costs and administrative costs. The effect of the transition from Swedish GAAP to IFRS on Orexo's operating profit/loss for 2004 was an increased total loss amounting to SEK 5.8 million. See the section entitled "Effects of the application of IFRS".

Financial items net: Orexo recorded financial items, net of negative SEK 9.8 million in 2004 as compared to SEK 0.5 million for 2003. The decrease was primarily due to SEK 10.5 million in expenses in connection with a potential offering of shares that, as of December 2004, was deemed dormant. The board of directors decided to postpone this transaction and the entire cost of preparation for the transaction was charged to earnings in 2004.

Taxes: Tax expenses amounted to SEK 1.2 million for 2004, as compared to SEK 1.6 million for 2003. The tax expenses for 2003 and 2004 constituted foreign withholding tax for the milestone payments received under the OX 20 license agreement with Kyowa Hakko, which could not be deducted from Swedish income tax. Orexo has not reported any tax assets attributable to loss carry-forwards as of December 31, 2004, as the Company's profits are still volatile.

Net income/loss: Orexo recorded a net loss of SEK 16.0 million in 2004, as compared to a net loss of SEK 27.6 million for 2003. The decreased net loss was mainly due to income from the license agreement signed during the year with Endo Pharmaceuticals, which was partly offset by increased expenses during the year, mainly due to increased investments in the development and granting of licenses to sell the Company's products. Goodwill was written down in December 2004 and charged to net financial items expenses relating to a proposed new share issuance, which at December 31, 2004 was deemed dormant. The effect of the transition from Swedish GAAP to IFRS on Orexo's net income/loss for 2004 was a total loss amounting to SEK 16.8 million, representing an increased loss of SEK 0.8 million. See the section entitled "Effects of the application of IFRS".

Fiscal Year Ended December 31, 2003 and Unaudited Year Ended December 31, 2002 (based on Swedish GAAP)

Net revenues: Orexo's net revenues for the fiscal year ended December 31, 2003 were SEK 21.4 million, an increase of 222.4% as compared to SEK 6.1 million for the year ended December 31, 2002. The increase was primarily due to payments under the OX 20 license agreement with Kyowa Hakko, which amounted to SEK 16.5 million. The payments were triggered by the signing of the license agreement and the obtaining of patent approvals in Japan covering OX 20. Sales of Diabact® UBT increased from SEK 3.5 million for 2002 to SEK 4.4 million in fiscal 2003. However, sales of Diabact® UBT were negatively affected by the cancellation of Orexo's agreement with its German distributor. Orexo had other revenues of SEK 0.6 million in fiscal 2003 consisting mainly of sales of consultancy services within regulatory affairs as compared to SEK 2.6 million for 2002, which consisted of one-time revenues of SEK 1.4 million from the sale of the entire inventory of Dilapril products (a generic heart medicine product which Orexo ceased selling in 2001) and SEK 1.2 million in sales of consultancy services within regulatory affairs.

Costs of goods sold: Costs of goods sold amounted to SEK 2.5 million in 2003, a decrease of 47.1% as compared to SEK 4.8 million for 2002, primarily due to a write-down in 2002 of SEK 2.3 million relating to the Dilapril inventory.

Selling costs: Selling costs were SEK 1.8 million in 2003, an increase of 29.3% as compared to SEK 1.4 million for 2002. The increase was primarily due to increased marketing efforts including the recruitment of a marketing manager for Diabact® UBT in 2003.

General and administrative costs: General and administrative costs were SEK 12.9 million in 2003, an increase of 46.1% as compared to SEK 8.8 million for 2002. The increase was primarily due to costs of severance payments of approximately SEK 2.0 million to Orexo's former President who resigned in 2003 and to increased administrative infrastructure costs such as computer networks. In addition, personnel hired during 2002 had a full year effect on general and administrative costs in 2003.

Research and development costs: Research and development costs were SEK 30.3 million in 2003, an increase of 80.0% as compared to SEK 16.8 million for 2002. The increase was primarily due to sharp increases in Orexo's development projects including the recruitment of research and development personnel within the clinical and galenic departments, quality assurance and control technicians and pharmaceutics technicians, and the acquisition of CePeP on September 1, 2003. Further, Orexo recruited a manager for the cell penetrating peptides business area.

Other operating income and expenses net: Other operating income and expenses were negative SEK 0.2 million in 2003, as compared to positive SEK 0.2 million for 2002.

Operating profit/loss: Orexo had an operating loss of SEK 26.4 million in 2003, as compared to an operating loss of SEK 25.6 million for 2002. The increase was primarily due to increased costs partly offset by increased license revenues.

Financial items net: Orexo recorded financial items net of SEK 0.5 million in 2003, as compared to negative SEK 5.2 million for 2002. The difference was mainly attributable to a write-down of SEK 5.7 million on the long-term receivable from Retson Acquisition AB in 2002. The receivable related to the licensing in 1999 of certain intellectual property rights regarding urea-14C, which Orexo determined, was not commercially valuable.

Taxes: Tax expenses amounted to SEK 1.6 million in 2003 and SEK 0.0 for 2002 as a result of Orexo's operating losses in both years. The tax expenses for 2003 constituted foreign withholding tax for the milestone payments received under the OX 20 license agreement with Kyowa Hakko, which could not be deducted from Swedish income tax. Orexo has not reported any tax assets attributable to loss carry-forwards as of December 31, 2003, as the Company's profits are still volatile.

Net income/loss: Orexo recorded a net loss of SEK 27.6 million in 2003, as compared to a net loss of SEK 30.8 million for 2002. The decreased net loss was primarily due to the factors set out above.

Liquidity and Capital Resources

The table below sets forth (a) unaudited summary cash flow information for Orexo for 2002, (b) audited summary cash flow information for 2003 and 2004 and (c) unaudited summary cash flow information for the nine months ended September 30, 2004 and 2005.

	Year ended December 31[1]			Nine months ended September 30[2]	
	Unaudited	Audited		Unaudited	
(SEK million)	2002	2003	2004	2004	2005
Cash flow in summary					
Operating profit/loss	(25.6)	(26.4)	(4.9)	28.4	(8.5)
Non cash items	4.8	5.4	18.0	3.6	(2.5)
Net interest income/expense	0.5	0.5	0.6	0.2	0.7
Other financial costs	–	–	(10.5)	0.0	–
Taxes paid	–	(1.6)	(1.1)	(1.2)	–
Changes in net working capital	–	0.1	13.8	13.7	(50.9)
Operating cash flow	(20.4)	(22.1)	15.9	44.6	(61.2)
Cash flow from investment activities	(10.1)	22.8	(1.1)	(1.0)	7.5
Cash flow from financing activities	39.3	–	54.0	52.1	(1.9)
Net cash flow	8.9	0.6	68.8	95.7	(55.7)

1) Financial statements for these periods have been prepared based on Swedish GAAP.
2) Financial statments for these periods have been prepared based on IFRS.

Orexo has financed its operations primarily through the issuance of shares and through sales and license revenues derived mainly from licensing of OX 20 and sales and licensing of Diabact® UBT. The Company's management intends to maintain a high equity to asset ratio and to use debt financing only to a limited extent, if at all. As of September 30, 2005 Orexo had no interest-bearing debts and had SEK 28.6 million in cash, cash equivalents and marketable securities. Orexo's funds are mainly held in bank deposits and interest-bearing instruments with short duration.

Cash Flow from Operations

Orexo's operations used cash of SEK 61.2 million during the nine months ended September 30, 2005 as compared to cash provided in operations of SEK 44.6 million during the nine months ended September 30, 2004. The increase in cash used of SEK 105.8 million was primarily due to decreased net revenues, continued development of the Company's product portfolio, continued development of Orexo's organization and infrastructure and increased receivables pertaining to a milestone payment from Endo Pharmaceuticals of approximately SEK 50 million (USD 6.5 million), which was recorded as revenue in the third quarter of 2005 but which is scheduled to be paid in the fourth quarter of 2005.

Orexo's operations provided cash of SEK 15.9 million during the year ended December 31, 2004, as compared to cash used in operations of SEK 22.1 million during the year ended December 31, 2003. The improved cash flow of SEK 38.0 million was primarily due to substantially increased revenues as well as increased current liabilities. These cash flow positive items were off set by substantially increased costs attributable to the continued development of the Company's operations.

Orexo's operations used cash of SEK 22.1 million during the year ended December 31, 2003, as compared to cash used in operations of SEK 20.4 million during the year ended December 31, 2002. The increase in cash used of SEK 1.7 million was primarily due to increased research and development costs and administration costs, which were partly offset by increased revenues primarily from payments received from the OX 20 license agreement with Kyowa Hakko.

Cash Flow from Investment Activities

Orexo's capital expenditures have related mainly to computers and other equipment used in the Company's research and development operations. Average capital expenditure on machinery and equipment was SEK 0.7 million during the years 2002–2004. Orexo's management believes that capital expenditure will be approximately SEK 9.0 million on average per annum the next few years. These investments will primarily include expansion of the Company's research and development, in-house laboratory infrastructure and clinical manufacturing capacity as well as capital expenditures for general corporate purposes.

Orexo's investment activities provided cash of SEK 7.5 million during the nine months ended September 30, 2005, as compared to cash used in investment activities of SEK 1.0 million during the nine months ended September 30, 2004. In May 2005 Orexo sold the Company's cell penetrating peptide technology through the sale of CePeP II AB, which provided cash of SEK 9.4 million. During the nine months ended 2005 cash was otherwise primarily used for investments in production and research facilities. Cash used in investment activities during the nine months ended September 30, 2004 consisted primarily of investments in production and research facilities.

Orexo's investment activities used cash of SEK 1.1 million during the fiscal year ended December 31, 2004, as compared to cash provided in investment activities of SEK 22.8 million during the year ended December 31, 2003. Orexo invested SEK 1.1 million in 2004 principally in production and laboratory equipment. Cash provided by investment activities during fiscal 2003 consisted primarily of SEK 23.2 million in cash received from the acquisition of CePeP. Orexo paid for the CePeP acquisition with shares and the group received the cash held by CePeP in connection with the acquisition.

Orexo's investment activities provided cash of SEK 22.8 million during the fiscal year ended December 31, 2003, as compared to cash used in investment activities of SEK 10.1 million during the year ended December 31, 2002. Cash provided by investment activities during fiscal 2003 consisted primarily of SEK 23.2 million in cash received from the acquisition of CePeP. Further, Orexo invested SEK 0.4 million in research and computer equipment as well as office furniture.

Cash Flow from Financing Activities

Orexo's financing activities used cash of SEK 1.9 million during the nine months ended September 30, 2005, as compared to cash provided by financing activities of SEK 52.1 million during the nine months ended September 30, 2004. Cash used by financing activities during the nine months ended September 30, 2005 consisted primarily of costs for an ongoing new issue of shares. Cash provided during the nine months ended September 30, 2004 consisted of cash from a new issue of shares.

Orexo's financing activities provided cash of SEK 54.0 million during the fiscal year ended 2004, as compared to no cash used or provided in financing activities during the year ended December 31, 2003. Cash provided by financing activities during the year ended December 31, 2004 consisted of proceeds from a new issuance of shares.

Orexo's financing activities neither used nor provided any cash during the fiscal year ended December 31, 2003, as compared to cash provided by financing activities of SEK 39.3 million during the year ended December 31, 2002. Cash provided by financing activities during 2002 consisted of proceeds from a new issue of shares in connection with the initial investment of the Principal Shareholders in the Company.

Liquidity Requirements and Financing Facilities

Since Orexo is a developmental phase company with limited revenues, the Company's primary source of funding has until recently been through equity and Orexo's indebtedness has accordingly been limited. As of September 30, 2005, and as of December 31, 2004, 2003 and 2002, Orexo's aggregate outstanding interest-bearing liabilities and provisions were, in each case, SEK 0.0 million.

Orexo has entered into leasing agreements pursuant to which the Company leases research and development equipment, including a tablet machine, as well as infrastructure for computer networks. For the fiscal year ended December 31, 2004, total lease payments for these equipment leases amounted to SEK 0.8 million.

Based on current development plans, terms of payments under license agreements and pharmaceutical market conditions, the existing funds and the expected proceeds from the offering are expected to be sufficient to finance Orexo's operations for at least the next 24 months.

Prospects and Financial Targets

As the Company and its products are in a development phase and the nature of the industry makes its operations difficult to forecast, Orexo does not make any forecasts regarding future earnings or traditional financial targets. However, Orexo's prospects of a more operational nature are presented below. Orexo's management plans in the next 12 to 24 months to add two new product candidates for development, accelerate existing product development projects during 2005 and 2006 and to hire additional employees to manage these accelerated projects. Orexo has strengthened its administrative infrastructure to enable the Company to manage the increased regulatory and reporting requirements following the stock exchange listing. If Orexo decides to establish a sales organization, initially for OX 20, in selected European markets including the Nordic region, Orexo estimates that this will result in costs and investments of approximately SEK 180 - 200 million over the next few years. Orexo's management anticipates that the Company's operating costs will continue to increase in 2006 and 2007 as compared to 2005.

- Orexo's management intends to continue to intensify the Company's development programs in 2006, in particular relating to OX 17, OX 19 and OX 40.

- Orexo considers establishing its own sales organization, initially for OX 20, in selected European markets including the Nordic region. However, Orexo continues to evaluate the possibility of outlicensing OX 20, which would decrease Orexo's investment needs significantly.

- Orexo's management anticipates that the expected finalization of a license agreement for OX 22 during the first half of 2006 will generate upfront or milestone payments starting in 2006.

- In addition, Orexo's ambition is to conclude a license agreement for one of its other product candidates in 2006, which could generate additional upfront or milestone payments starting in 2006.

Orexo's management believes that Orexo could generate revenues from royalties on product sales at the earliest in late 2007. Based on the factors set out above, Orexo's management believes that the Company could generate a positive cash flow from operations excluding investments at the earliest in late 2007.

Recent Events

Management Changes and Changes in the Board of Directors

At the annual general meeting of shareholders on April 20, 2005, Professor John Sjögren was elected as a member of the board of directors and Christer Nyström resigned as a member of the board of directors. At Orexo's extraordinary general meeting of shareholders held on September 16, 2005, Hans-Peter Hasler was elected as a member of the board of directors.

Effective September 1, 2005, the Company appointed the Executive Vice President and one of the co-founders of Orexo, Thomas Lundqvist, as Chief Scientific Officer and Claes Wenthzel as Executive Vice President and Chief Financial Officer. Dr. Nils-Otto Ahnfelt was appointed Vice President and Head of Research and Development.

Incentive Plan

On March 30, 2005, the board of directors of Orexo resolved to grant employees and other key individuals stock options comprising 44 call options on warrants carrying rights to subscribe for, in the aggregate, 11,000 Orexo shares (adjusted for the 250:1 split, which has been implemented in connection with the offering). See the section entitled "Board of Directors, Management and Auditors – Share-Based Incentive Plans". The call options have been granted free of charge. As a result, Orexo will record personnel expenses and social security expenses during the vesting period for the call options.

On September 16, 2005, Orexo's extraordinary general meeting of shareholders resolved to implement a stock option plan comprising 700 call options on warrants carrying rights to subscribe for, in the aggregate, 175,000 Orexo shares (adjusted for the 250:1 share split). See the section entitled "Board of Directors, Management and Auditors – Share-Based Incentive Plans". No call options have been granted under the plan.

On September 16, 2005, Orexo's extraordinary general meeting of shareholders resolved in accordance with a proposal from certain major shareholders to issue 46 options each to two newly elected members of the board of directors. The general meeting further resolved to issue 200 stock options to a senior executive. All these options comprise call options on warrants carrying rights to subscribe for, in the aggregate, 73,000 Orexo shares (adjusted for the 250:1 share split). See the section entitled "Board of Directors, Management and Auditors – Share-Based Incentive Plans". The call options have been granted free of charge. As a result, Orexo will record personnel expenses and social security expenses for the stock options.

Sale of the cell penetrating peptide technology

In May 2005, Orexo transferred its cell penetrating peptide technology from its subsidiary Kibion AB (formerly CePeP AB, registration number 556610-9814), to a newly established subsidiary, CePeP II AB (registration number 556678-9367). Following the transfer, CePeP II AB was sold to a company owned by Ülo Langel and Dr. Mattias Hällbrink at a purchase price of SEK 9.5 million. Orexo gave only limited representations and warranties in connection with the sale of CePeP II AB, and Orexo's maximum exposure under the share transfer agreement is limited to SEK 500,000.

Diabact® UBT

With the purpose of increasing the marketing and sales efforts on Diabact® UBT, Orexo transferred all rights relating to Diabact® UBT to Orexo's wholly owned subsidiary Kibion in September 2005. Orexo intends to provide Kibion with autonomy to actively in-license products and enhance its operation based on strategic transactions.

Development milestone payment after completed clinical study

Orexo has met the requirements for its first development milestone payment of 6.5 million dollar under the license agreement with Endo Pharmaceuticals. Orexo has completed for Endo Pharmaceutical a clinical trial of OX 20, which had positive results. In this trial, the dose range to be used in the next stage of development of OX 20 was established. The payment was recorded as revenue in the third quarter of 2005 but will affect cash flow in the fourth quarter of 2005.

Quantitative and Qualitative Disclosures about Market Risk

Interest Rate and Foreign Currency Exchange Rate Risk Management

Orexo's business operations give rise to market risk exposure due to changes in foreign exchange rates and interest rates. To manage these risks effectively, Orexo has established guidelines and a detailed financial policy relating to how such risks should be limited and managed. Orexo's financial policy also establishes the division of responsibility and reporting instructions for management.

Pursuant to the Company's financial policy, Orexo enters into hedging transactions in an attempt to mitigate, in whole or in part, the adverse effects of financial market risk. The main purpose of Orexo's treasury function is to reduce adverse deviations in the financial results, shareholders' equity and cash flow as a result of changes in interest rates or foreign exchange rates. Orexo does not enter into hedging transactions for trading or speculative purposes. Orexo cannot guarantee that its hedging strategies will be effective or that currency transaction or translation losses can be minimized or forecasted accurately.

Orexo's finance department may use futures, options, currency swaps, interests rate swaps or forward rate agreements to minimize currency and interest rate risks to which the Company is exposed. Orexo has not utilized any of these instruments during 2004 and 2005.

Orexo's most significant market risk exposure is foreign currency exchange rate risk. A sensitivity analysis is therefore provided below in respect of Orexo's exposure against USD and EUR.

Interest Rate Risk and Certain Risks Related to Management of Liquid Funds

Orexo is exposed to interest rate risks primarily due to its investment of excess liquidity in interest-bearing securities. Orexo's finance department is responsible for managing these interest rate risks. The main objective of Orexo's interest rate risk management is to reduce the negative impact of interest rate movements on net interest expenses. Pursuant to Orexo's interest rate risk management policy, excess liquidity is first used to amortize debt, if any, provided that such amortization does not increase the costs for Orexo or is otherwise inconsistent with Orexo's financial policy. Also, in purchasing securities with excess liquidity, Orexo aims to acquire securities with low risk profiles that have maturities primarily of not more than one year and to hold such instruments until maturity.

Credit and counterparty risk is the risk that a counterparty will not fulfill its obligations to repay the principal amount of a receivable or pay interest thereon. Pursuant to Orexo's finance policy, the Company may have the following counterparties or invest in the following instruments: the Kingdom of Sweden, Nordea, Swedbank, Handelsbanken, SEB, Upplandsbanken, Swedish mortgage institutions issuing bonds, Swedish municipalities and county councils with a K-1 rating from Standard & Poor's and companies with commercial papers with a K-1 rating from Standard & Poor's. The maximum allowed exposure per counterparty is between SEK 20 million and SEK 100 million or, if the counterparty is the Kingdom of Sweden, exposure is unlimited.

Pursuant to Orexo's finance policy, all assets in Orexo's investment portfolio shall be realizable within five banking days or within such estimated time period as may be required based on the latest budget or forecast for the Company.

Foreign Currency Exchange Rate Risk

Orexo reports in SEK and has its operations in Sweden. Thus, Orexo incurs most of its operating expenses in SEK. However, Orexo sells its products in countries other than Sweden and receives license revenues in currencies other than SEK. Foreign currency denominated assets, liabilities, revenues and expenses result in foreign exchange exposures. The depreciation of SEK against other currencies increases Orexo's reported assets, liabilities, revenues and net income, while the appreciation of SEK against other currencies decreases these same items. Foreign currency fluctuations have not had a significant effect on Orexo's reported assets and liabilities, profit and loss or the comparability of Orexo's results between financial periods in the past, but may have such an effect in the future.

Foreign exchange risks consist of translation exposure and transaction exposure.

Translation Exposure

Translation exposure arises as a result of having assets and liabilities and operations denominated in foreign currencies. For financial reporting purposes, assets and liabilities denominated in foreign currencies are translated into SEK at exchange rates in effect at the end of the reporting period, and revenues and expenses are translated at the average rates of exchange during the period. The difference between the average rate of exchange and the balance sheet rate is recorded as an adjustment to equity on Orexo's balance sheet at the end of the fiscal year. According to Orexo's financial policy, balance sheet exposure should be hedged by having assets and liabilities denominated in the same currency.

Transaction Exposure

Transaction exposure arises as a result of having sales denominated in currencies different from the currencies of related costs and expenses. A significant portion of Orexo's transaction exposure relates to sales of Diabact® UBT outside Sweden and license revenues not denominated in SEK. Orexo limits its transaction exposure as far as possible by matching in- and outflows of a certain currency. In addition, for time periods for which a cash flow forecast can be made with high certainty, Orexo aims to hedge at least 50% of its net currency exposure. During 2005 and 2004, the Company did not engage in any hedging transactions.

Effects of Foreign Currency Exchange Rate Exposure

Orexo has significant sales in currencies other than SEK, in particular USD and EUR. Most of Orexo's operating costs, however, are in SEK. In the nine months ended September 30, 2005, sales in USD represented 87.6% and sales in EUR represented 3.4% of net revenues. During the same period, 12.9% of Orexo's total operating costs were denominated in foreign currency, with 2.5% in USD and 6.8% in EUR. In the year ended December 31, 2004, sales in USD represented 95.8% and sales in EUR represented 3.3% of net revenues. During the same period, 8.2% of Orexo's total operating costs were denominated in foreign currency, with 1.8% in USD and 4.5% in EUR.

The following table reflects currency exposures in 2004 and the nine months ended September 30, 2005 respectively, highlighting the effect of a 1% increase or decrease in the value of the indicated currency against SEK on Orexo's operating profit for such period, excluding the impact of currency hedging transactions.

Exchange rate change against SEK	**+1%**		**–1%**	
	(SEK thousands)			
	Year ended December 31, 2004	**Nine months ended September 30, 2005**	**Year ended December 31, 2004**	**Nine months ended September 30, 2005**
USD	809	501	(809)	(501)
EUR	13	(33)	(13)	33

OVERVIEW OF THE DRUG DELIVERY MARKET

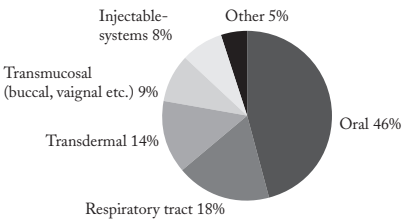
Overview

The science of drug delivery can be summarized as the process of ensuring that the active compound of a pharmaceutical product is optimally delivered to a patient or an intended disease site. Drug delivery technologies are numerous and can range from tablets or liquids to more advanced technologies such as those designed to deliver pharmacologically active compounds transmucosally, transdermally, pulmonarily, or intranasally, or designed to penetrate only certain cells within the body (e.g., cancer cells). Whatever their format, drug delivery technologies provide the opportunity to make pharmaceuticals safer, more effective, more efficient and more convenient, all areas of continued unmet therapeutic need. Drug delivery technologies are widely applicable and are often applied to currently marketed pharmaceuticals as well as new active compounds in development stages.

Traditional drug delivery companies often offer their technologies as a service to pharmaceutical companies, typically receiving payments and royalties on product sales from the pharmaceutical companies for their services. More recently, certain drug delivery companies, such as Orexo, have developed or started to develop proprietary pharmaceuticals for unmet therapeutic needs by utilizing their drug delivery technologies.

According to industry sources, the overall global pharmaceuticals market had sales of USD 518 billion in 2004, a 7.0% increase over 2003. Although many common diseases and conditions are targeted by existing pharmaceutical therapies, these pharmaceuticals often exhibit sub-optimal properties such as toxicity, side effects, low efficacy, slow onset of action, the need for frequent dosing, or administration only by injection. According to industry sources, sales of pharmaceutical products incorporating drug delivery technologies exceeded USD 79 billion in 2004, and is estimated to grow to USD 117 billion by 2009.

The following chart provides a break-down of the drug delivery market in 2003 by route of administration (based on market value)[1)]



1) *Oral administration* means that the active compounds pass through the stomach before reaching the small intestine where they are absorbed through the intestinal mucosa, pass through the liver and finally reach the rest of the body via the bloodstream. Respiratory tract allows for the absorption of pharmaceuticals via the mucosa membrane. Transmucosal administration allows for the absorption of pharmaceuticals into the bloodstream typically via the oral mucosa. When utilizing the oral mucosa, pharmaceuticals are often administered by applying a drug intraorally or by placing a fast dissolving tablet sublingually. Transdermal administration means that the pharmaceutical pass through the outer layers of the skin to the blood vessels in the deeper layers. The pharmaceutical is then carried throughout the circulatory system of the body. Transdermally administrated pharmaceuticals are mainly delivered by patches, gels or creams.

Orexo's current focus is on dry formulations, which is the most commonly used formulation for pharmaceuticals. Orexo has developed products and product candidates within the transmucosal and oral drug delivery market segments.

Development and Regulatory Environment

Orexo believes that the pharmaceutical development process based on drug delivery has several advantages over the traditional pharmaceutical development process. In general, pharmaceuticals developed through the drug delivery process as compared to pharmaceuticals that are developed through the traditional development process have a shorter time to market, lower development costs and lower development risks. The differences between the two development processes are summarized and further explained below.

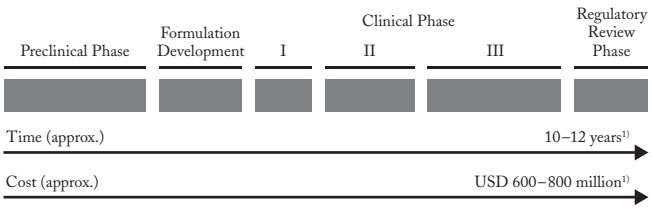
The following chart is intended to illustrate the differences that Orexo's management believes exist between Orexo's business model relative to the business models of biotechnology and traditional drug discovery and development companies. The chart is intended only as an expression of management's belief and should be read in conjunction with the sections entitled "Forward-Looking Statments" and "Risk Factors".

Factor	Development of Proprietary Pharmaceuticals through Bitechnology and Traditional Drug Discovery and Development	Development of Proprietary Pharmaceuticals through Drug Delivery Technologies (Orexo)
Development risk	High	Low
Development cost	High	Low – Medium
Development time	Long	Short
Probability for early stage partnering	Low	High
Probability for late stage partnering	High	High
Commercial potential	High	Medium – High
Potential profit stream, short term	Low	High
Potential profit stream, long term	High	High

Product Development through Traditional Drug Discovery and Development

Traditional drug discovery and development is a long, expensive and risky process. Drug discovery and development companies generally have to commit significant resources and time to identify and then prove that a new chemical entity ("NCE") is safe to be administered as a pharmaceutical and that it has the medical effect described by its labeling. A summary of the process is described below:

Traditional pharmaceutical discovery and development process



1) The time and cost indications are based on estimates by Orexo's management. The time and cost required for any given drug discovery development project may vary significantly from those indicated.

- *Preclinical phase.* By utilizing multiple technologies and scientific approaches such as gene technology, pharmaceutical companies often initially endeavor to identify the cause of a disease or condition and identify a target upon which a pharmaceutical may act to improve or detect the disease or condition. Once such a target has been validated developers seek to produce the safest and most efficacious compound possible by conducting experiments both in vitro and in animals. Selected compounds then have to pass substantial toxicological, cancerogenecity and mutagenicity studies before the developer may submit the dossier to the appropriate regulatory body, such as the FDA, seeking approval to conduct clinical trials in humans.

- *Formulation Development.* Formulation development is undertaken in parallel with clinical development. This phase supports the development of the products to optimize the desired effects of the final product.

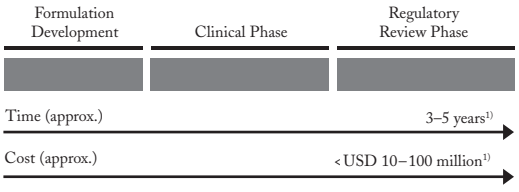
- *Clinical Phase I–III.* Drug development is a highly structured process divided into three phases which are designed to prove the safety of the new pharmaceutical, determine dosage requirements and, predominantly in the later phases, prove its efficacy. This process requires increasingly large, complex, expensive and time-consuming clinical trials. Specifically, during clinical Phase I, the product candidate is initially given to a small number of healthy human subjects or patients and tested for safety, tolerance, absorption, metabolism, distribution and excretion. During clinical Phase II, additional studies are conducted in a larger, but still relatively limited, patient population to verify that the product candidate has the desired effect and identify optimal dosage levels. Furthermore, possible adverse effects and safety risks are identified. The efficacy of the product candidate for specific targeted diseases is also studied in more depth and dosage tolerance and optimal dosage are determined. During clinical Phase III, after Phase II evaluations demonstrate that the product candidate has the desired effect and has an acceptable safety profile, trials are undertaken to further evaluate dosage, to provide statistically significant evidence of clinical efficacy and to further study the safety in an expanded patient population at multiple clinical trial sites. Phase III trials may require several hundreds or thousands of patients and are therefore the most expensive and time-consuming to conduct. Once these trials are concluded, the developer submits all the preclinical and clinical trial documentation to the regulator to seek approval to market the NCE as a pharmaceutical.

- *Regulatory Review.* Having received the dossier of information from the developer, the regulator reviews all the information related to the safety of the NCE and whether the effect claimed by the developer on the proposed label can be substantiated by the results of the clinical trials. The regulator has the option to decide to approve the NCE as requested, ask for changes to the claims made by the developer, ask for more information or clinical trials, or refuse to approve the NCE for sale.

Product Development through the Use of Drug Delivery Technologies

Pharmaceutical companies utilizing new drug delivery technologies often seek to improve the sub-optimal therapeutic characteristics of well documented active compounds that have already received regulatory approval. In doing so, these companies are able to utilize the significant existing knowledge about the safety and efficacy of the active compound as a basis for the documentation for the new formulation. This enables these companies to develop novel, proprietary pharmaceuticals more quickly, at substantially lower costs and with lower development risks compared to traditional drug discovery and development. A summary of the process is described below:

Drug delivery development process



1) The time and cost indications are based on estimates by Orexo's management. The time and cost required for any given drug delivery development project may vary significantly from those indicated.

- *Formulation Development.* Drug delivery companies seek to improve the therapeutical potential of the products and the formulation of the active compound to improve its therapeutic characteristics. It is not necessary to perform costly research of the compounds that Orexo uses to discover targets and develop new active compounds, as they are already known. Once new formulations have been designed and optimized in relation to desired characteristics, the product candidate is validated and documented in the clinical phase.

- *Clinical Phase.* Before clinical trials may be conducted, approval must always be obtained from the appropriate regulatory body. Unlike the extensive Phase I to Phase III clinical trial process required for pharmaceuticals that undergo traditional drug discovery and development, drug delivery companies can use applicable parts of the existing safety and efficacy documentation for the active compound when designing regulatory approval programs for new pharmaceuticals based on new formulations. Drug delivery companies can generally avoid having to perform large and expensive clinical trials, which provide statistical support for the safety and efficacy of the pharmaceutical, thus substantially shortening the clinical process. Since the development of drug delivery products therefore in most cases can be completed after Phase II, Orexo divides its projects into the formulation development phase and clinical phase.

- *Regulatory Review.* A company developing an improved pharmaceutical formulation has access to all public regulatory documentation for the active compound in addition to the proprietary information generated in connection with the development of the new formulation. The regulator reviews all the bibliographic information related to the safety of the active compound and, based on the documentation obtained for the new formulation, whether the pharmacological effect claimed by the developer on the proposed label can be substantiated by the results of the clinical trials. The regulator has the option to decide to approve the application as requested, ask for changes to the claims made by the developer, ask for more information or clinical trials, or refuse to approve the reformulation for sale.

Key Drivers of the Drug Delivery Market

Orexo's management believes that, despite the constant advances being made in the medical and pharmaceutical sciences, there are a number of significant unmet therapeutic needs in the pharmaceutical market that can be met through the application of drug delivery technologies. Orexo's management believes that the following factors have been, and will continue to be, major drivers in the expansion of the drug delivery market:

- *Shorter development times, lower development risks and lower development costs.* Drug delivery companies often seek to improve the characteristics of approved pharmaceuticals. Such pharmaceuticals are often well documented and, as a consequence, the documentation program required for the regulatory approval of new formulations of such pharmaceuticals is often less extensive.

- *An increasing need for drug delivery technologies to improve pharmaceutical characteristics.* Orexo's management believes that there is a strong demand for drug delivery technologies that can overcome the limitations of existing pharmaceuticals (such as, for example, inconvenient administration) as well as new active compounds in development. Drug delivery technologies have the potential to overcome these shortcomings and increase the likelihood of developing commercially viable products from these active compounds. Orexo's management also believes that the need for drug delivery technologies is illustrated by the significantly faster revenue growth of pharmaceuticals incorporating drug delivery technologies compared to the growth of the overall pharmaceutical market.

- *A need to improve patient compliance.* Many patients with common chronic diseases are required to take their medication daily, often involving multiple doses and multiple pharmaceuticals, which complicates the treatment compliance. Industry sources estimate that up to 12% of patients fail to take their medication as directed and estimate that nearly 8–10% of all hospitalizations in the United States are related to poor treatment compliance, which results in significant extra cost for the health care system. New drug formulations constitute an important factor in improving medical treatment by allowing, for example, for once a day medication and 'on demand' treatment. This, in addition to giving clinical benefits to the patients, provides a substantial cost saving potential for the health care system.

- *An increasing number of new pharmaceuticals require drug delivery technologies.* Many recently approved pharmaceuticals, as well as product candidates in advanced clinical development phases, are based on proteins, peptides and carbohydrates, and are often difficult to administer orally as they degrade in the intestine and have low ability to be absorbed into the bloodstream. Furthermore, such pharmaceuticals often require very precise dosing. In addition to these problems, many low molecular weight compounds have failed to reach commercialization due to their poor intestinal absorption characteristics. Drug delivery technologies may, however, improve the dissolution and absorption characteristics of active compounds that are difficult to administer, enabling them to be commercialized as therapies. A number of the most successful pharmaceuticals currently on the market, such as Losec MUPS, for acid-related diseases (AstraZeneca), and Seloken®ZOC, for hypertension, vascular-spasms and migraine (AstraZeneca), utilize specific drug delivery technologies.

- *An increasing desire to improve product lifecycle management.* Major pharmaceutical companies need to protect their product franchises and expand their product portfolios in order to fully exploit the value of their products and their investments. The use of drug delivery technologies has allowed many of these companies to extend their period of patent protection and to improve the therapeutic characteristics of their products.

Traditional drug delivery companies normally offer their technologies as a service to pharmaceutical companies, typically receiving payments and royalties on product sales from the pharmaceutical companies for such services, whereas Orexo develops its own proprietary pharmaceuticals for unmet therapeutic needs by utilizing its drug delivery technologies.

BUSINESS

Overview

Orexo is a product based drug delivery company that develops proprietary pharmaceuticals to address areas of unmet therapeutic need. Orexo exploits its competence within clinical practice and drug development to identify and assess areas of therapeutic need that can be met by developing proprietary pharmaceuticals based on well documented pharmacologically active compounds that incorporate Orexo's drug delivery technologies. By identifying and improving on the sub-optimal therapeutic characteristics of currently marketed products, Orexo aims to develop patent protected pharmaceutical products across a range of therapeutic areas. To date, Orexo has focused on developing dry formulations for oral fast-dissolving, sublingual or transmucosal routes of administration for the treatment of acute conditions or symptoms where a fast, predictable and reproducible onset of action is desirable. Orexo's management believes that the Company operates in a highly attractive segment of the pharmaceutical industry characterized by significantly shorter development times, lower development costs and lower development risks as compared to traditional drug discovery and development, which focuses on the discovery and development of new active compounds. Orexo's management believes that the Company has an extensive portfolio of patents that protect its products and technologies.

Orexo commenced its operations in 1995 and is based in Uppsala, Sweden, where Orexo established a close collaboration with Uppsala University. Orexo's first product, Diabact® UBT for Helicobacter pylori infection diagnosis, was outlicensed in Japan in 1997 and launched for commercial sales in 2000 in certain geographical markets. Orexo's main product candidate based on the Company's sublingual tablet technology, OX 20 for breakthrough pain in cancer patients, was outlicensed in Japan in 2003 and in North America in 2004. OX 22 for insomnia, which is based on the same drug delivery technology as OX 20, underwent two clinical trials in 2004 and OX 17, which is a product for treatment of gastro esophageal reflux disease (GERD), underwent a human proof of concept study in 2004. As of September 30, 2005 Orexo had 40 full-time employees, the majority of whom were engaged in research and development, clinical development and regulatory affairs.

The Company has commercialized one product, has two product candidates, which have reached preparation for the regulatory review phase, has one product candidate in the clinical phase and two product candidates that Orexo's management anticipates will enter the clinical phase in the next 12 to 24 months.

Orexo's current portfolio of approved pharmaceuticals, product candidates which have reached preparation for the regulatory review phase, clinical development phase product candidates and projects in formulation development stages include:

- *Diabact® UBT for Helicobacter pylori infection diagnosis.* Diabact® UBT is a diagnostic pharmaceutical for Helicobacter pylori infection based on Orexo's patented rapid dissolution tablet technology. Diabact® UBT represents the latest generation urea breath test ("UBT"), a tablet formulation designed for site-specific delivery of the active compound to the stomach. Orexo's management believes that the technology allows for greater diagnostic accuracy, enables the use of smaller doses and reduces the overall testing procedure time compared to competing diagnostic tests. Diabact® UBT was launched in 2000 and is sold in Finland, Hong Kong, Ireland, Sweden and the United Kingdom. The Diabact® UBT technology has been licensed to Kyowa Hakko for Japan. In September 2005, Kibion AB, a wholly owned subsidiary of Orexo, was established for the further commercialization of Diabact® UBT and other potential businesses.

- *OX 20 for treatment of acute pain in cancer patients.* OX 20 is initially being targeted at treatment of breakthrough cancer pain and is intended to combine the rapid release of the analgesic fentanyl with mucoadhesive components to give site-specific absorption over the sublingual mucosa. Orexo believes that OX 20 provides for 'on demand' characteristics including predictable and rapid onset of action, which is reproducible for each repeated dosage. Orexo has entered into license agreements with Endo Pharmaceuticals, covering North America, and Kyowa Hakko, covering Japan. Orexo is currently in negotiations to outlicense the marketing rights for OX 20 for markets other than North America and Japan. Orexo is considering establishing its own sales organization, initially for OX 20, in selected European markets including the Nordic region, independently or in combination with partnership agreements with selected pharmaceutical companies. OX 20 has successfully undergone a number of clinical trials and Orexo intends to file for regulatory approval in selected European markets during the first half of 2006.

- *OX 22 for treatment of insomnia.* Based on Orexo's proprietary tablet technology for rapid and reproducible absorption of an active compound over the sublingual mucosa, OX 22 is designed with the aim of improving upon a currently available sedative and hypnotic agent by, among other things, reducing the time between tablet administration and sleep onset. OX 22 has also been designed to reduce the variability in plasma concentration exhibited by current therapeutic alternatives which are known to affect sleep onset time, quality and duration of sleep and cause 'day-after' effects. OX 22 has been successfully tested in healthy volunteers to document its pharmacokinetic profile. OX 22 induced significantly shorter sleep latency compared to the existing tablet that must be swallowed. Sleep architecture and sleep maintenance characteristics were not different compared to the existing tablet that must be swallowed. Orexo's management plans to submit an application to enable marketing of OX 22 in the United States and in selected European markets in late 2005 or early 2006. Orexo also continues to seek to enter into outlicense agreements for OX 22 with potential partners, which could impact Orexo's current development plan with respect to OX 22.

- *OX 17 for treatment of gastro esophageal reflux disease (GERD).* OX 17 exploits Orexo's patented technology for rapidly dissolving intragastric formulations to combine two existing, well documented inhibitors of gastric acid secretion. Orexo's management believes that the combination, which is the subject of a pending patent, provides for a rapid and significant reduction in acid secretion through a dual mode of action on the acid secreting parietal cells in the gastric mucosa and is expected to provide both fast and lasting acid reduction capabilities. The principle upon which OX 17 is based has been documented in a clinical trial which showed a rapid increase in the pH profile in the stomach of healthy volunteers to therapeutic levels on the first day of use that was maintained at such level during the treatment period of eight days. OX 17 entered initial clinical Phase I/II trials in August 2005.

- *OX 19 for treatment of daytime and nocturnal incontinence.* OX 19 is based on Orexo's proprietary technology for sublingual administration of peptide pharmaceuticals to facilitate the absorption over the sublingual mucosa of desmopressin, a compound that decreases urine production. In addition to targeting nocturnal incontinence, OX 19 also targets 'on demand' treatment of daytime incontinence. OX 19 is currently in the formulation development phase. OX 19 incorporates Orexo's peptide delivery technology, which is aimed at optimizing the bioavailability for peptides.

- *OX 40 for acute treatment of moderate to severe migraine.* OX 40 utilizes Orexo's patented tablet technology for rapid and reproducible absorption of the active compound for the treatment of migraine over the sublingual mucosa. The active compound of OX 40 is a well documented 5-HT1 receptor agonist and is designed to have a rapid, predictable and reproducible onset of action, which is a prerequisite for an efficient 'on demand' treatment strategy. Formulation development regarding OX 40 is ongoing. Orexo's management is considering taking OX 40 into clinical trials during 2006.

Orexo has identified additional product candidates within areas such as anxiety, nausea, Parkinson's disease and pain for further development that are currently undergoing scientific, technological and commercial assessment.

Business Model and Strategy

Orexo's ambition is to become a leading drug delivery company focused on the development and commercialization of novel pharmaceuticals. Orexo's strategy includes the following key elements:

- *Focus on addressing unmet therapeutic needs.* Orexo aims to continue to exploit its multidisciplinary capabilities to assess areas of therapeutic need that can be met by combining existing, well documented active compounds with its patented drug delivery technologies and the Company's expertise in dry formulations to create novel, proprietary pharmaceuticals.

- *Seek high returns on pharmaceutical development investment.* Orexo's business model is to develop novel, proprietary pharmaceuticals, which offer an expedited time to market, lower risks of clinical failure and lower development costs compared to pharmaceuticals developed through traditional drug discovery and development. Orexo's management believes that, by following its business model, the Company will be able to generate high returns on its development investments.

- *Complete clinical studies of product candidates prior to commercialization or partnering with pharmaceutical companies.* Currently, Orexo's management intends to advance most of the Company's product candidates through early clinical trials and gain clinical proof of concept prior to entering into collaborations with pharmaceutical companies regarding these product candidates. Orexo plans to advance some of its product candidates through late stage clinical trials in order to seek higher upfront, milestone and royalty payments from prospective commercialization partners.

- *Retain certain marketing rights and establish a focused, specialty sales organization in selected European markets including the Nordic region.* Orexo believes that with certain financial investments and resources, the Company can establish its own sales organization for certain products in selected European markets including the Nordic region. Orexo continually evaluates how to pursue the commercialization of its products. Orexo's marketing strategies for a product in a geographic market may include both the securing of partnership agreements with selected pharmaceutical companies and the establishment of its own sales organization or a combination of these. Having its own sales organization could result in Orexo being able to better control the Company's revenue stream and achieve higher profit margins from product sales and limit the Company's dependence on outlicensing partners. For each of its products and markets, Orexo carefully evaluates which marketing strategy that it deems most appropriate.

- *Continue to broaden and develop new technology platforms and products.* To enhance its ability to compete, Orexo aims to continually identify and develop products based on patented drug delivery technologies and, when appropriate, in-license or acquire new pharmacologically active compounds and/or new drug delivery technologies. Orexo's management believes that such a strategy will allow for the Company to expand its expertise in drug delivery technologies that can address unmet therapeutic needs and enable the Company to further broaden its product portfolio.

Key Competitive Strengths of Orexo

Orexo's management believes that the Company's business model has a number of strengths that have underpinned its success to date and that will enable it to implement its objective of becoming a leading product-based drug delivery company with revenues generated from milestone payments and royalties from collaborating partners and Orexo's own sale of products. Orexo's strengths include:

- *Ability to develop new proprietary pharmaceuticals faster, with lower development costs and lower development risks compared to pharmaceuticals developed through traditional drug discovery and development.* Orexo aims to continue to exploit its multidisciplinary capabilities to assess areas of therapeutic need that can be met by combining existing, well documented active compounds with its patent protected drug delivery technologies. By following this strategy, Orexo's management believes that it will be able to develop novel pharmaceuticals that can be commercialized faster with lower risk of clinical failure and lower development costs compared to pharmaceuticals developed through traditional drug discovery and development.

- *Advanced stage and balanced product portfolio.* Orexo's management believes that it has a strong, well balanced product portfolio. Orexo has already gained regulatory approval for and commercially launched its first product, Diabact® UBT. Moreover, Orexo also has two product candidates, OX 20 for breakthrough pain in cancer patients and OX 22 for insomnia, which have reached preparation for the regulatory review phase. Orexo intends to seek European marketing approval for OX 20 in the first half of 2006. Orexo also continues to pursue negotiations of license agreements with potential partners for OX 22 and OX 17, which could impact Orexo's current development plans for these products. OX 17 for gastro esophagal reflux disease (GERD) has entered the clinical phase. OX 19, for treatment of daytime and nocturnal incontinence, is currently in the formulation development phase. Orexo's management is considering to take OX 40, for migraine, into clinical trials during 2006. Orexo also has several other formulation development projects.

- *Proven ability to apply and commercialize Orexo's technologies through partnerships.* Orexo has entered into license agreements for OX 20 with Kyowa Hakko, covering Japan, and with Endo Pharmaceuticals, covering North America. Orexo has entered into distribution arrangements for Diabact® UBT in European markets and elsewhere and has licensed the Diabact® UBT technology to Kyowa Hakko for Japan.

- *Leading expertise in dry formulation.* Dry formulations are the most common formulations used for pharmaceuticals, and Orexo's management believes that the Company has a leading expertise in this area.

- *Strong drug delivery technologies platform.* Orexo has a number of patented drug delivery technologies and new drug delivery technologies for which patent applications have been filed, which can be applied to several pharmaceutical compounds. These technologies include sublingual, mucoadhesive tablets, fast-dissolving tablets, pharmaceutical formulations of compounds that are difficult to dissolve, powder for administration via the nasal mucosa, and methods for optimizing the dissolution of pharmaceuticals in small liquid volumes.

- *Strong intellectual property portfolio.* Orexo has pursued an active intellectual property strategy to protect its innovations. The Company has 15 patent families comprising approximately 90 patents that have been granted, and has approximately 60 patents pending. These patents cover new formulations, new routes of administration, novel medical use or product combinations. Orexo has a rigorous selection process for new projects. One of the fundamental determinants of a project's attractiveness is the potential for the Company to create patent protection around the application of Orexo's technology and the anticipated novel pharmaceutical. By obtaining such intellectual property, Orexo strengthens the commercialization platform for its products. Orexo's management believes that the Company has a broad portfolio of proprietary technologies and expertise to develop new pharmaceuticals.

- *Use of a focused regulatory strategy.* In traditional drug discovery and development, the regulatory process is generally both lengthy and costly, requiring a number of preclinical and clinical trials. Orexo uses well documented active compounds that have substantial clinical trial history and known side effects, which enables stream-lined and effective documentation programs to obtain approval from the regulatory authorities. This strategy involves an early and careful evaluation of the regulatory requirements in each project and ongoing discussions with regulatory authorities to enable the Company to carry out a streamlined clinical program that still meet the expected requirements of the regulatory authorities.

- *Experienced management team.* Orexo has a highly experienced management team, which has completed a number of preclinical and clinical studies as well as registration and commercialization of products in several markets. Members of Orexo's management team have complementary backgrounds in research and development, clinical and regulatory affairs, sales and marketing, finance and general management, with experience gained from global companies such as AstraZeneca, Pfizer, Pharmacia, Sanofi-Aventis and Wyeth as well as the Swedish Medical Product Agency (Sw. Läkemedelsverket).

Current Product and Project Portfolio

Orexo currently has the following commercialized product, product candidates which have reached preparation for the regulatory review phase, clinical development phase product candidates and advanced formulation development projects.

Product Portfolio

Product or Product Candidate	Indication or Potential Use	Status: Formulation Development Phase	Status: Clinical Phase	Status: Regulatory Review Phase	Status: Commercialization Phase
Diabact® UBT	Helicobacter pylori infection detection	■	■	■	■
OX 20	Acute pain in cancer patients	■	■		
OX 22	Insomnia	■	■		
OX 17	Gastro Esophageal Reflux Disease (GERD)	■			
OX 19	Incontinence	■			
OX 40	Migraine	■			

In addition to those listed above, Orexo has identified additional products within areas such as anxiety, nausea, Parkinson's disease and analgesics for further development that are currently undergoing scientific, technological and commercial assessment.

Diabact® UBT – Diagnostic Pharmaceutical for Detection of Helicobacter Pylori Infection

Overview

Diabact® UBT is a diagnostic breath test for the detection of Helicobacter pylori infection and is based on Orexo's patented rapid dissolution tablet technology. Helicobacter pylori bacteria produce large amounts of the enzyme urease. This enzyme effectively degrades urea into carbon dioxide (CO^2), which is absorbed into the blood and transported to the lungs, where it can, if labeled, be detected in exhaled breath.

The presence of Helicobacter pylori in the mucosal lining of the stomach is recognized as a key factor in the origin of gastroduodenal ulcers. In addition, Helicobacter pylori infection is associated with a manifold increased risk for the development of gastric cancer and has been listed as a first class carcinogen by the World Health Organization (WHO). Furthermore, one of the most effective treatment strategies for the treatment of functional dyspepsia to date is the diagnosis and eradication of Helicobacter pylori infection.

Orexo had revenues from the sales of Diabact® UBT of SEK 4.4 million in 2003, 3.5 million in 2004 and SEK 3.6 million for the period January 1, 2005 to September 30, 2005. Orexo's management believes that, in the long-term, revenues from Diabact® UBT will not constitute a significant part of Orexo's total revenues unless diagnostics for Helicobacter pylori infection become part of a general screening procedure for gastric cancer, which is currently not the case.

In September 2005, Kibion AB, a wholly owned subsidiary of Orexo, was established for the further commercialization of Diabact® UBT and other potential businesses.

Market Opportunity

The market for this type of diagnosis has not developed favorably since the launch of Diabact® UBT as many physicians proceed directly to the treatment of the patients without first making a diagnosis. However, Orexo's management believes that, in accordance with current medical guidelines, there is a general trend towards focusing on diagnosis, treatment and follow-up of the patient as well as a shift from endoscopy-based Helicobacter pylori diagnosis to more convenient and less expensive urea breath tests.

Competition

There are a number of methods to analyze the presence of Helicobacter pylori, such as breath tests, gastroscopy, blood tests and evacuation tests.

Competitive Advantage

Diabact® UBT is mentioned as a diagnostic preference method in both American and European medical guidelines. Specifically, Diabact® UBT has been mentioned as an important diagnostic alternative and is regularly reported in scientific journals as the preferred breath test. Orexo's management believes that Diabact® UBT has several competitive advantages that should allow it to compete successfully against existing products.

- *Non-use of radioactive isotopes.* Certain competing breath tests use a radioactive isotope (Urea-14C) to label the urea. Orexo's technology uses Urea-13C, a non-radioactive isotope, which is deemed to be safer and allows for the testing of children and pregnant women.

- *Reduced time of test procedure.* A major limitation of liquid-based UBTs is that the liquid reacts with bacteria other than Helicobacter pylori that are present in the oral cavity and thus increases the risk of a false positive result. This makes a diagnosis of Helicobacter pylori infection with a breath sample during the first 30 minutes after the liquid has been administered unreliable. By contrast, Diabact® UBT delivers the labeled urea in tablet form, protecting the urea from being exposed to the bacteria in the oral cavity thus making it possible to shorten the duration of the procedure to ten minutes.

- *No need for a test meal prior to test procedure.* As noted above, to obtain reliable results, the breath sample analyzed in a liquid UBT should not be taken until 30 minutes after administration. After this time period, however, the risk of a false negative response increases because of the emptying of urea from the stomach into the intestine. With a tablet-based administration, the sample can be obtained much earlier, eliminating the need for administering a fatty test meal aimed at delaying gastric emptying, while the reliability of the test is maintained or even improved.

- *Reduced risk of false negative results through addition of citric acid.* The activity of the urease enzymes is dependent on the level of hydrochloric acid in the stomach, which varies substantially during the day. By adding citric acids to the Diabact® UBT tablet, Orexo has allowed for the creation of a micro acidity environment that increases the activity of the urease enzymes and enhances the reliability of the diagnosis.

- *Reduced product cost.* By using a tablet formulation, the entire dose of the active compound is delivered directly to the site of action. This means that the test requires a significantly lower dosage.

Intellectual Property

The Diabact® UBT concept is protected by patents, trademarks and license agreements. The technology is protected by the following patents: Diagnostic preparation for the detection of ongoing Helicobacter pylori infection, which has been granted in Australia, Canada, Japan, New Zealand, Sweden, the United States and by the European Patent Office (the "EPO"), and Preparation for the detection of urease activity in the gastric tract, which has been granted in Australia, China, New Zealand and several European countries and is pending in several other countries.

Collaborations and Commercialization

Orexo has entered into distribution and marketing agreements for Diabact® UBT for the following markets: Finland, Hong Kong, Ireland, Sweden and the United Kingdom. In Finland, the distributor markets and sells Diabact® UBT on a commission basis. In Sweden, the distribution is managed by a distribution center and promoted by Kibion. In Hong Kong, Ireland and the United Kingdom, Diabact® UBT is sold by distributors through local distribution networks. The Diabact® UBT technology was licensed to Kyowa Hakko for Japan in 1997.

OX 20 – Treatment of Acute Pain in Cancer Patients

Overview

Orexo's most advanced product candidate, OX 20, utilizes sublingual administration and is intended to provide fast, effective and safe relief of moderate to severe acute cancer pain. OX 20 is a formulation containing the potent analgesic compound fentanyl. OX 20 is intended for sublingual administration, whereby the tablet quickly disintegrates into a plurality of small units consisting of a carrier to which the active compound and a mucoadhesive component have been attached. These units adhere to the sublingual mucosa where the fentanyl rapidly dissolves. With this approach the OX 20 formulation produces high concentration levels of the active compound on the surface of the mucosa, which facilitates rapid absorption into the bloodstream.

Fentanyl is a synthetic opioid that is commercially available in several formulations for transdermal (patches), transmucosal and injectable delivery. In the United States, fentanyl was originally approved by the FDA in 1968. The actions of fentanyl are similar to those of morphine, although fentanyl is 75 to 100 times more potent.

The first indication for OX 20 is intended to be the treatment of moderate to severe acute pain in cancer patients. One common characteristic among cancer patients is that many patients experience periods of inadequate analgesia (i.e., experience breakthrough pain), usually due to increases in the patient's activity level. Presently available oral analgesic formulations generally have slow onset of action or highly variable pharmacokinetic profiles resulting in unpredictable and inconsistent treatment characteristics. Orexo's management believes that a rapidly absorbed, relatively short-acting, easily administered, potent and yet safe analgesic product is a valuable tool for the management of this type of pain. Orexo's management believes that OX 20 meets all of these criteria and OX 20 has proved effective at controlling breakthrough pain in cancer patients in a clinical trial. Additional studies in healthy volunteers as well as cancer patients have demonstrated that OX 20 exhibits rapid and highly reproducible absorption of fentanyl into the bloodstream which is critical for the predictable treatment of acute cancer pain.

Orexo's management believes that, in addition to relieving acute pain in cancer patients, OX 20 could be suitable for other pain conditions where the rapid onset of pain relief is important, such as postoperative and traumatic pain. The pharmacokinetic profile of OX 20 would also appear to be advantageous for the treatment of short duration pain, such as pain experienced in connection with diagnostic procedures, endoscopic procedures and orthopedic manipulations.

Market Opportunity

The global market for pain management is estimated to be approximately USD 35 billion with annual growth of approximately 7%. Products for rheumatoid arthritis, neuropathic pain and cancer pain support are expected to demonstrate the highest growth in the sector. Fast acting fentanyl for cancer breakthrough pain is anticipated to exhibit significant growth driven by new formulations that deliver fast-acting patient-friendly pain relief with fewer side-effects. OX 20 represents an innovative pharmaceutical approach to the treatment of moderate to severe acute pain in cancer patients. The first indication for OX 20 is intended to be the treatment of moderate to severe pain in cancer patients. Cancer pain is usually the result of nociceptive pain and opioids are the current standard treatment. Industry sources estimate that the total market for acute cancer pain products is approximately USD 10 billion per year and the market is expected to grow to approximately USD 12 billion over the next five years. It is estimated that up to 80% of the cancer pain population suffer from periods of pain despite a base treatment with long acting opoids. These breakthrough pain episodes demand fast acting medication and Orexo's management believes that OX 20 would be well-suited to treat this unmet need.

Orexo's management also believes that there are additional market opportunities to treat moderate to severe pain in specific indications where patients could benefit from an improved fast acting opioid product (e.g., patients suffering from post operative pain and neuropathic pain and AIDS patients).

Competition

Currently the treatment of breakthrough pain in cancer patients is dominated by conventionally administered long acting opioids, normally in the form of traditional tablets. Rapidly acting treatments are generally restricted to injections. More recently a lozenge/lollipop-based fentanyl product (Actiq™) has been introduced to the market. Actiq™ recorded sales of approximately USD 200 million in the United States in the first half of 2005. As this product, manufactured by Cephalon, is only partially absorbed over the oral mucosa, a less predictable secondary absorption via the intestine results in a delayed and prolonged mode of action. Cephalon is also targeting the approval of its OraVescent fentanyl product candidate, which is partly based on an effervescent technology that is intended to be administered buccally, for the treatment of breakthrough cancer pain in 2006. In May 2005, Cephalon announced positive results from its Phase III OraVescent fentanyl clinical program. Other companies are seeking alternative delivery methods for fentanyl, such as oral fast-dissolving tablets, pulmonary inhalers, nasal sprays and intraoral patches, some of which are the subject of ongoing clinical trials and some for which a registration application has been filed, with projected product launches in the United States or European Union from the middle of 2006.

Competitive Advantage

Orexo's management believes that OX 20 exhibits competitive advantages that should allow it to compete successfully with existing products. OX 20 has been designed to dissolve quickly under the tongue, with local absorption over the sublingual mucosa. As a result OX 20 has a faster and more predictable onset of action than products that rely on absorption over the intestine or via the intestine and oral mucosa in combination, such as Actiq™. Due to OX 20's perceived rapid, predictable and reproducible onset of action, Orexo's management believes that OX 20 offers significant benefits to the treatment of severe acute pain in cancer patients. In addition, because the OX 20 tablet and the fentanyl dosage are fully absorbed, it eliminates the problem of non-absorbed fentanyl, which is a risk factor when using Actiq™. Thus, OX 20 allows for a more precise dosing for individual titration to achieve effective pain management in contrast to the main competing product currently on the market. The blister package enables easy dosage, storage and handling of the pharmaceutical.

Clinical Development

Orexo has concluded a clinical trial program with OX 20 for the treatment of breakthrough pain in cancer patients. The results from the clinical trials has identified a dose range of OX 20 that is adequate for the treatment of breakthrough pain in opioid tolerant cancer patients. Orexo's management further believes, based on these clinical trial results and pharmacokinetic profile of OX 20, that existing safety and efficacy documentation for the active compound of OX 20 (fentanyl) can be used in conjunction with the submission of an application for registration approval of the product candidate in the European Union. Orexo plans to submit an application for regulatory approval and marketing of OX 20 in selected European markets during the first half of 2006 and anticipates obtaining such approval in the second half of 2007. Orexo is currently in negotiations to outlicense the marketing rights for OX 20 for markets other than Japan and North America. Under the license agreement with Endo Pharmaceuticals, Endo Pharmaceuticals has committed to perform additional clinical trials with OX 20 to support the filing of a new drug application for OX 20 with the FDA in the United States. OX 20 recently completed a clinical trial, which had positive results. Orexo has thus fulfilled the first development milestone under the license agreement with Endo Pharmaceuticals. The Phase III program for OX 20 is planned to commence in the last quarter of 2005.

Intellectual Property

OX 20 technology is protected by the following patents: Pharmaceutical formulation for the treatment of acute disorders, which has been granted in Australia, China, Japan, New Zealand, Russia, Slovakia, Turkey and the United States and is pending with the EPO and in a number of other countries, and Fentanyl composition for the treatment of acute pain, which has been granted in Australia, China, the United States and a large number of European countries.

Collaborations

Orexo licensed the marketing rights for OX 20 in Japan to Kyowa Hakko in January 2003. Kyowa Hakko is a Japanese research-based pharmaceutical and biotechnology company. Under the license agreement Orexo received an upfront payment of USD 1.0 million upon execution of the agreement and two milestone payments amounting in the aggregate to USD 2.5 million for obtaining patent approvals and receiving a positive opinion on the clinical trial program for OX 20 from the Japanese regulatory agency. Pursuant to the license agreement, additional milestone payments of up to a total of USD 5.0 million are to be paid upon completion of clinical trials and upon regulatory approval for OX 20 in Japan. Under the terms of the license agreement, Orexo is also entitled to receive single-digit percentage royalties based on future sales.

Orexo licensed the rights to develop and market OX 20 in North America to Endo Pharmaceuticals in August 2004. Endo Pharmaceuticals is one of the leading U.S.-based pharmaceutical company focusing on pain management. Under the license agreement Orexo received an upfront payment of USD 10.0 million upon execution of the agreement and may under the agreement receive additional payments of up to USD 61.3 million and double-digit percentage royalties based on future sales. Of the potential payments of up to USD 61.3 million, USD 6.5 million is related to the achievement of a development milestone, USD 15.6 million is made up of three license fee payments of USD 5.2 million each, payable annually in advance from the fourth quarter of 2006, and up to USD 39.2 million is

payable if defined sales thresholds are met. The annual license fee shall be creditable against any royalties due for such period. In the event any annual royalty payment exceeds USD 5.2 million, no further annual license fee payments shall be made to Orexo under the agreement. The Company recorded a development milestone in the third quarter of 2005 of USD 6.5 million, which will affect Orexo's cash flow in the fourth quarter of 2005. In addition, the license agreement contains customary terms and conditions, including representations, warranties, indemnities and termination rights. The term of the license agreement shall be until the later of (i) the expiration of the patents or (ii) the expiration of any market exclusivity right. Endo Pharmaceuticals can terminate the license agreement under certain circumstances, including upon six months' written notice, upon which Endo Pharmaceuticals may be required to pay a termination fee of up to USD 1.5 million.

Orexo is considering establishing its own sales organization for OX 20 in selected European markets including the Nordic region, independently or in combination with partnership agreements with selected pharmaceutical companies. However, Orexo continues to evaluate the possibility of outlicensing of OX 20 in these markets.

Orexo has committed to pay up to a total amount of SEK 30.0 million, 10% of all payments received from products or product candidates containing fentanyl for sublingual administration for the treatment of acute pain, chronic pain or breakthrough pain, such as OX 20. Such compensation should be paid to companies owned by two scientists involved in the development of fentanyl related products for the treatment of cancer breakthrough pain. Based on this undertaking, the Company incurred total costs of SEK 15.1 million as of September 30, 2005, whereof outstanding amounts of SEK 5.1 million will be paid during the fourth quarter of 2005.

Additional Indications

Orexo is evaluating whether to develop and seek to obtain regulatory approval for additional indications for OX 20 other than for treatment of moderate to severe acute pain in cancer patients.

OX 22 – Treatment of Insomnia

Overview

Orexo has developed OX 22 to meet unmet therapeutic needs that affect many insomnia sufferers, particularly those who do not have symptoms on a regular basis. Currently, patients must take medication in advance of the manifestation of insomnia because of the generally slow and unpredictable onset of current medication. OX 22 is designed to provide insomnia sufferers with the flexibility to medicate only when needed, i.e. to delay the taking of medication until the condition manifests itself. OX 22 has the potential to, 'on demand', induce consistent and reproducible rapid sleep as well as preserve sleep continuity throughout the night.

OX 22 is intended for sublingual administration, whereby the tablet quickly disintegrates into a plurality of small units consisting of a carrier to which the active compound and a mucoadhesive component have been fixed. These units initially adhere to the sublingual mucosa where the active compound rapidly dissolves and are absorbed. OX 22's formulation allows the product to achieve high concentration levels of the active compound on the surface of the mucosa, which facilitates rapid absorption into the bloodstream.

OX 22 contains zolpidem, an existing well documented non-benzodiazepine hypnotic, that has proved effective in reducing sleep latency and nocturnal awakenings and increasing total sleep time. OX 22 is designed to improve upon the existing product's known variable pharmacokinetic profile. Such variations are known to affect sleep onset time, the quality and duration of sleep and to cause 'day-after' effects.

Market Opportunity

According to industry sources, the global hypnotic market for the treatment of insomnia in 2004 was USD 2.7 billion. According to industry sources, nearly 150 million insomniacs have been identified on the seven leading markets and in the United States 73% of insomniacs suffer from untreated sleep disorder. Industry sources estimate that in the

United States approximately 30% of the adult population suffer from some form of insomnia and that just over 50% receive treatment. There are several causes of insomnia, not all of which are treatable by hypnotics, or by OX 22 were it to be commercialized. Insomnia is the perception or experience of insufficient or poor-quality sleep because the person has difficulty falling asleep, wakes up frequently throughout the night and has difficulty returning to sleep, wakes up too early in the morning and does not feel refreshed, or a combination of these symptoms. Insomnia is not defined based on objective measurements such as the length of time required to fall asleep or the total number of sleep hours. Instead, since individual sleep requirements vary, an assessment of insomnia is inherently subjective in nature.

Competition

If and when OX 22 becomes commercialized it will compete with several products in the transient insomnia market. Currently available products generally fall into one of two categories, benzodiazepines and non-benzodiazepines. Non-benzodiazepine products have been introduced to the market more recently and are generally preferred by physicians due to their better safety, addiction and lack of 'day-after' effects profile. A non-benzodiazepines product with a large market share in the insomnia treatment market is Stilnox/Ambien (zolpidem), which is anticipated to go off patent in all major markets during the latter part of 2006. A modified version of Stilnox/Ambien with modified release time for the active compound has been developed by the patent owner and is expected to be launched in the near future. In addition, one new non-benzodiazepines product, Lunesta (Sepracor), has recently been launched and other products, Indiplon (Pfizer and Neurocrine) and Rozerem (Takeda), are expected to be launched shortly.

Competitive Advantage

Orexo's management believes that the Company's proprietary drug delivery technologies, combined with a hypnotic agent with a half-life proven to preserve sleep during the night with no or minimal residual effect, has the potential to compete favorably with existing and future insomnia products. Orexo's management believes that OX 22 should have 'on demand' capability, allowing for rapid and predictable sleep onset. Further, Orexo believes that OX 22 provides for both short sleep latency and preserved sleep architecture throughout the night, facilitating restorative sleep. As demonstrated in clinical trials, OX 22's rapid sublingual absorption also helps to avoid 'day-after' residual effects, which normally are caused by late intestinal absorption peaks.

Clinical Development

Orexo has completed a clinical trial program comparing the pharmacokinetic profiles of sublingual OX 22 and an existing swallowable tablet formulation. The results from the trials show that individuals receiving OX 22 exhibit a significantly faster and less variable increase in plasma concentrations of the active compound compared to those receiving current conventional tablet formulation treatment. Orexo has also completed a clinical trial in healthy volunteers to evaluate latency to persistent sleep (LPS), with standard polysomnographic tests. The results show that OX 22 significantly reduces LPS compared to the reference product that is orally administered. Orexo's management further believes that, based on the pharmacokinetic data it has obtained so far, existing safety and efficacy documentation for the active compound can be used to support an application for approval in the European Union and the United States. Orexo's management plans to submit an application to enable marketing of OX 22 in the United States and in selected European markets late 2005 or early 2006. Orexo continues to actively seek to enter into outlicense agreements for OX 22 with potential partners, which could impact Orexo's current development plans with respect to OX 22.

Intellectual Property

OX 22 is protected by one of the two patents that protects the OX 20 technology, Pharmaceutical formulation for the treatment of acute disorders, which has been granted in Australia, China, Japan, New Zealand, Russia, Slovakia, Turkey and the United States and is pending with the EPO and in a number of other countries.

Collaborations

Orexo has commenced the process of seeking partners to further develop and commercialize OX 22, with the aim of concluding a licensing agreement in the first half of 2006.

Additional Indications

Orexo is evaluating whether to develop and seek to obtain regulatory approval for additional claims and indications for OX 22.

OX 17 – Treatment of Gastro Esophageal Reflux Disease

Overview

OX 17 is a product candidate intended for the treatment of gastro esophageal reflux disease ("GERD"). OX 17 is a combination of two well documented active compounds, a histamine type 2 receptor antagonist ("H2-receptor antagonist"), and a proton pump inhibitor ("PPI"), which have been united in a tablet based on Orexo's proprietary drug delivery technology.

A single dose of an H2-receptor antagonist results in maximal acid inhibitory effect within two hours of intake. However, the acid inhibitory effect obtained with a H2-receptor antagonist declines significantly during the following days. PPIs have a proven ability to offer long-term control of stomach acidity and thus symptom relief. However, due to the PPIs' mechanism of action, the onset is relatively slow, and four to five days often transpire before maximal acid inhibitory effect is achieved. OX 17 is designed to provide a rapid onset of action as well as good long-term effect by combining an H2-receptor antagonist with a PPI.

Market Opportunity

According to industry sources, the global market for H2-receptor antagonists and PPIs in 2004 was USD 1.8 billion and USD 20.5 billion respectively, and the market for ulcers and GERD treatments is expected to grow by 5.2% per year until 2008.

Competition

If and when OX 17 is commercialized it will compete against multiple products in the prescription GERD market. In addition to current pharmaceutical therapies, a new class of acid inhibitory pharmaceuticals known as potassium-competitive acid blockers, ("P-CABs") are being developed and it is anticipated that they will compete in the same market segment as OX 17 in the future. Should OX 17 become commercialized, Orexo's management believes that its profile should allow it to compete successfully with both existing approved products and products based on the next generation acid-reducing compounds, or P-CABs.

Competitive Advantage

Effective inhibition of acid secretion from first to last dose is of primary importance in alleviating patient symptoms and improving the quality of life for patients with GERD and other acid-related disorders. Orexo believes that current pharmacological standard treatment alternatives, namely H2-receptor antagonists and PPIs administered independently, do not meet this need. The next generation of P-CABs could be the first class of active compounds to meet this need independently.

Formulation and Clinical Development

Development of OX 17 has entered the clinical phase. The feasibility study of OX 17, which was completed in 2004, was aimed at documenting the antisecretory activity and onset of action of repeated doses of a PPI, a H2-receptor antagonist and a combination of these. Compared to the PPI, the combination significantly reduced the time

to onset at day one. After eight days of daily treatment there were no differences between the PPI and the combination while the H2-receptor antagonist effect decreased during the treatment period.

Orexo is in the process of performing studies with OX 17 using a formulation developed according to Orexo's proprietary technologies. The study, which is being performed on healthy volunteers, is aimed at comparing the degree and rate of acid suppression on day one and day eight during treatment with OX 17 (a fixed combination of a H2-receptor antagonist and a PPI) and assess tolerability and safety of OX 17 treatments. OX 17 entered into clinical Phase I/II trials in August 2005.

Intellectual Property

OX 17 is protected by the following patent applications: Gastric acid secretion inhibiting composition (PCT/SE02/00757) and Gastric acid secretion inhibiting composition (PCT/SE03/01598). Orexo has been granted a patent in New Zealand for the invention Gastric acid secretion inhibiting composition (PCT/SE02/00757).

Collaborations

Orexo's management intends to initiate partnering discussions regarding OX 17 immediately after it completes proof of concept studies in humans, with the aim of concluding a license agreement in the second half of 2006.

OX 19 – Treatment of Incontinence

Overview

OX 19 targets the need for improved treatment of incontinence. A diagnosis of incontinence includes urgency-incontinence (abrupt desire to void that could not be suppressed) and stress-incontinence (small leakage in situations with increased intraabdominal pressure) and represents a large social handicap. OX 19 is based on Orexo's sublingual tablet technology and utilizes the active compound desmopressin, a synthetic analogue of the natural hormone arginine vasopression, that acts as an anti-diuretic and decreases urine production. Orexo's management believes that treatment with desmopressin is essentially devoid of side effects and that its therapeutic potency is well documented. As with the oral administration of other peptides, the absorption of desmopressin is very limited (approximately 0.1% of orally administered desmopressin is absorbed) which means that high dosage levels are required, increasing the cost of treatment. Further, desmopressin's poor bioavailability currently results in significant variability in pharmacokinetics and therapeutic effect. Orexo's management believes that the Company can substantially improve the pharmacokinetic profile of desmopressin in OX 19.

As with several other of Orexo's product candidates, OX 19 is intended for sublingual administration, whereby the tablet quickly disintegrates into a plurality of small units consisting of a carrier to which the active compound and a mucoadhesive component have been fixed. These units initially adhere to the sublingual mucosa where the active compound rapidly dissolves. With this approach, OX 19 achieves high local concentration levels of the active compound on the surface of the mucosa, which facilitates rapid absorption into the bloodstream. The technology was developed in part with the aim of improving the absorption of peptide-based pharmaceuticals. OX 19 is the first in a series of peptide based product candidates that Orexo plans to pursue for development.

Market Opportunity

Orexo's management believes that the market for a more effective and safe anti-diuretic like OX 19 should be attractive and that it may be effective in treating incontinence across a range of patient groups. Although desmopressin has primarily been used to treat nocturnal enuresis, or bed-wetting, in children, there has been significant recent interest in the market potential of desmopressin for treating daytime and nocturnal incontinence in adults. This shift has created the need for improved drug delivery technologies that improve bioavailability and therapeutic effect. Today, the marketplace can be divided into three areas:

- Pediatric bed-wetting affects at least 5% of children up to the age of seven.
- Nocturia in adults is a widespread condition and it is estimated that up to 70% of the elderly suffer from nocturia.
- Urinary incontinence, defined as involuntary loss of urine, is a common health problem among women. The prevalence rate among women is estimated to between 12% and 55% for having ever experienced urinary incontinence.

According to industry sources, the pharmaceutical market for incontinence treatment (excluding benign increase in prostate volume) was valued at USD 2.0 billion in 2004, an increase of 13.3% over 2003. The market is expected to grow to USD 3.5 billion by 2008.

Competition

Current management of urinary incontinence is dominated by chronic treatment (non-desmopressin products) in order to improve bladder capacity. The treatment has been shown to only marginally reduce the number of leaking episodes and the treatment has significant side effects, including dry mouth, constipation, somnolence, headache and dizziness. The main products currently on the market for treatment of continuous incontinence include Detrol/ Detrusitol (Pfizer) and Ditropan (Sanofi-Aventis).

Desmopressin is currently available in nasal-spray pumps that deliver 2.5µg or 10µg per spray. Recently an oral formulation (100µg and 200µg) for the treatment of adult nocturnal bed-wetting became available on the market. Recommended doses range from 200 to 600µg. Treatment with desmopressin is deemed safe, if used correctly, and side effects are rare. The treatment shows cure rates of between 60% and 80%, with relapse rates after discontinuation of 90%. Desmopressin's current disadvantage as a treatment of incontinence is its poor bioavailability (approximately 0.1% for oral and 3-5% for transnasal administration).

Competitive Advantage

Orexo's proprietary technology and technologies for which patent applications have been filed utilize a mixture of mucoadhesive carrier compounds coated with the active compound, resulting in a pharmaceutical composition that combines rapid release of desmopressin with mucoadhesive properties which increases the contact time with the mucosa and thereby improves its bioavailability. Orexo believes that OX 19 will improve upon products that currently are disadvantaged by poor bioavailability and unpredictable uptake.

In addition, in contrast to the packaging and storage limitations of existing nasal desmopressin products, Orexo's sublingual tablet can be packaged in blisters and Orexo's management does not believe that OX 19 will be subject to stability deficiencies. The blister package enables easy storage and handling of the pharmaceutical. The use of Orexo's sublingual technology should provide an improvement over and a cost effective alternative to nasal formulations.

Formulation and Clinical Development

OX 19 is currently in the formulation optimization phase, which is expected to be finalized in the second half of 2005. Orexo expects to commence Phase I studies in the first half of 2006 and initiate Phase II studies in the second half of 2006, which would focus on measuring comparative pharmacokinetics as well as anti-diuretic effects in healthy volunteers. The clinical phase is planned to be completed in 2007.

Intellectual Property

OX 19 is protected by one of the two patents that protects the OX 20 technology, Pharmaceutical formulation for the treatment of acute disorders, which has been granted in Australia, China, Japan, New Zealand, Russia, Slovakia, Turkey and the United States and is pending with the EPO and in a number of other countries.

Collaborations

Orexo currently plans to enter into partnership arrangements regarding OX 19 towards the end of the clinical phase, aiming at concluding a license agreement in the second half of 2007.

OX 40 – Treatment of Migraine

Overview

Migraine is characterized by recurrent attacks of severe pain, usually on one side of the head. It may be preceded by flashes and other visual phenomena and accompanied by nausea, vomiting, or dizziness. The attacks vary in frequency from daily occurrences to one every few years. Migraine affects women three times as often as men and is frequently inherited. Although the exact cause of migraine is unknown, evidence suggests that a genetically transmitted functional disturbance of cranial circulation may have a role. The pain is believed to be associated with constriction followed by dilatation of intracranial blood vessels. Untreated attacks may last for many hours, even days.

With OX 40, Orexo aims to target the unmet therapeutic need for a fast acting, easy to administer serotonin 5-HT type 1 receptor agonist ("5-HT1 receptor agonist") for the treatment of migraine. OX 40 is based on Orexo's technology for sublingual administration, designed for treatment of conditions for which a rapid, predictable and reproducible effect is highly desirable.

OX 40 is intended for sublingual administration, where the tablet quickly disintegrates into a plurality of small units consisting of a carrier to which the active compound and a mucoadhesive component have been fixed. These units initially adhere to the sublingual mucosa where the active compound rapidly dissolves. With this approach, OX 40 achieves high local concentration levels of the active compound on the surface of the mucosa, which facilitates rapid absorption into the bloodstream.

Market Opportunity

Industry sources estimate that migraine affects approximately 15–18% of the female population and approximately 6–8% of the male population, or approximately 74 million people in the seven largest pharmaceutical markets worldwide. Approximately 90% of those diagnosed receive pharmaceutical treatment and 80% of such patients are unhappy with their current medication. Industry sources estimate that the total value of the ethical migraine pain market was USD 3.1 billion in 2004, a 5.2% increase over 2003.

Competition

The migraine market is currently dominated, in terms of sales, by so called triptans, a group of compounds that function to treat acute symptoms of migraine by stimulating intracranial 5-HT1 receptors.

5-HT1 receptor agonists have been the mainstay in migraine treatment for several years. A shortcoming of oral administration of 5-HT1 receptor agonists is that even though the active compound is rapidly absorbed there is an extensive first pass metabolism, which decreases in varying degrees the compound's bioavailability. In addition to pain, the main symptoms of migraine are nausea and vomiting, which make oral administration unsuitable. In search of a needle-free pharmaceutical formulation, pharmaceutical companies have developed formulations for nasal administration, which can significantly increase the active compound's bioavailability at the cost, however, of increased variability in absorption. Orexo's management believes its sublingual tablet technology would constitute a very competitive route of administration for anti-migraine treatment.

The migraine market has thus far been dominated by Sumatriptan (GlaxoSmithKline), which represents the first generation of triptans. In recent years pharmaceutical companies have developed a second generation of triptans with improved oral bioavailability, including for example Zolmitriptan (AstraZeneca), Rizatriptan (Merck&Co), Frovatriptan (Vernalis) and Eletriptan (Pfizer). There are currently no formulations for these products that allow for local sublingual absorption.

Competitive Advantage

Orexo's management believes that OX 40 will exhibit competitive advantages that should allow it to compete successfully with existing products. Even though nasal administration avoids first pass metabolism and obstacles to absorption, such as vomiting, it is generally characterized by high inter/intra individual variations in relation to maximum dosing levels in the blood, time to onset and total amount of the pharmaceutical absorbed. A sublingual, site-specific dose delivery of a 5-HT1 receptor agonist in the oral cavity, as would be provided by OX 40, is anticipated to offer an alternative to nasal administration, and would, by avoiding first pass metabolism, be expected to reach the same bioavailability levels and pharmacokinetic profile. Orexo's management believes that OX 40 will be particularly effective in avoiding secondary absorption of the active compound via the intestinal tract due to its site-specific sublingual administration, thus enabling the administration of small amounts of a 5-HT1 receptor agonist as well as reducing pharmacokinetic variability. The sublingual tablet can be packed in blisters and offers easier storage, handling and administration compared to nasal formulations.

Formulation and Clinical Development

Orexo has developed a formulation optimized for sublingual administration of a 5-HT1 receptor agonist. Orexo has completed experimental studies in animals designed to evaluate bioavailability through sublingual absorption. Orexo's management expects that it will commence human studies to evaluate the pharmacokinetics of OX 40 and that this data will be available in the first half of 2006. Orexo's management believes that comparative pharmacokinetic studies will form a bridge to existing safety and efficacy data for the active compound. Orexo's management is considering taking OX 40 into clinical trials during 2006.

Intellectual Property

OX 40 is protected by one of the two patents that protects the OX 20 technology, Pharmaceutical formulation for the treatment of acute disorders, which has been granted in Australia, China, Japan, New Zealand, Russia, Slovakia, Turkey and the United States and is pending with the EPO and in a number of other countries.

Collaborations

Orexo currently has no plans to enter into any partnership arrangements regarding OX 40.

Additional Product Candidates

Orexo has identified additional product candidates within areas such as anxiety, nausea, Parkinson's disease and pain for further development that are currently undergoing scientific, technological and commercial assessment.

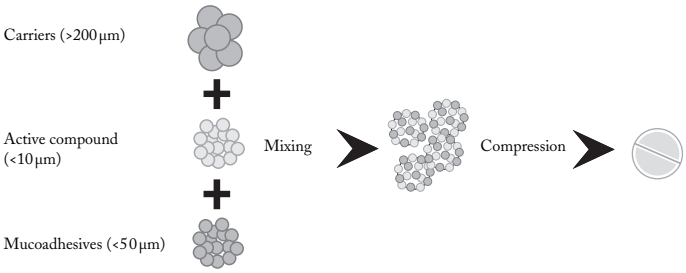
Drug Delivery/Formulation Technologies

Orexo has invented, developed or acquired a number of proprietary drug delivery technologies.

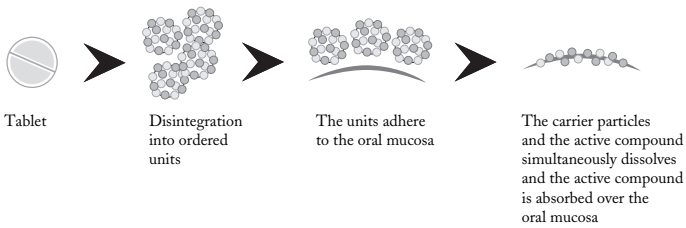
Sublingual Mucoadhesive Tablet

Orexo's lead technology, the sublingual dosage form, was originally developed for the treatment of acute pain in cancer patients (OX 20). The sublingual tablet combines the properties of fast dissolution in the oral cavity with rapid site-specific absorption of the active compound over the sublingual mucosa. Several of Orexo's current pharmaceutical product candidates are based on its sublingual tablet technology. The sublingual tablet consists of three different components: a carrier, mucoadhesive microparticles and the active compound. These components are mixed and then compressed into a tablet (see the illustration below). When administered, the tablet is placed under the tongue where it rapidly disintegrates into ordered units of carrier, mucoadhesive microparticles and the active compound. The units adhere to the sublingual mucosa due to the presence of mucoadhesives and the carrier particles and the active compound dissolve simultaneously and the active compound is then rapidly absorbed over the mucosa.

Constructing a sublingual mucoadhesive tablet



The process of disintegration, dissolution and absorption



In general, the advantage of the technology compared to many existing drug delivery technologies include:

- Rapid onset of action, allowing for 'on demand' treatment;
- Avoidance of first pass metabolism and creating higher bioavailability;
- Avoidance of variability in bioavailability due to gastric passage (acid sensitive, gastric emptying);
- Improved absorption of poorly absorbed compounds (peptides); and
- Relatively cost-effective manufacturing process.

Orexo's sublingual mucoadhesive tablet technology has been utilized in OX 20, OX 22, OX 19 and OX 40 and Orexo's management believes that the Company can apply the technology to other active compounds. The mucoadhesive tablet differs from ordinary orally administered pharmaceuticals and tablets in that the active compound is not absorbed in the intestine of the patient but instead over the sublingual mucosa. Orexo will continue to develop and improve its technologies for sublingual drug delivery. Orexo will also continue to evaluate other active compounds to which it can apply its mucoadhesive tablet technology.

Oral Fast-Dissolving Tablet

Orexo has significant experience with dry mixture methods combined with a tablet formulation designed for momentary disintegration to improve the dissolution of active compounds that are difficult to dissolve in water. In order to be absorbed, all pharmaceuticals require that the active compound be dissolved in the fluids at the site of absorption. The oral fast-dissolving tablet is designed for fast dissolution in the gastrointestinal tract of the patient. The technology is currently used in Orexo's first marketed product, Diabact® UBT, a product for the diagnosis of Helicobacter pylori infection, and in OX 17, a prospective treatment for GERD. Orexo's management believes that the oral fast-dissolving tablet technology can be applied to other pharmaceuticals as well. Orexo's management believes that the technology offers the following advantages:

- *Increased bioavailability.* With a tablet that rapidly disintegrates into many much smaller units, the surface area presented to water in the gastrointestinal tract is increased significantly. This increases both the rate of dissolution and the absorption over the intestinal mucosa.

- *Shorter time to onset.* By using a special mixture technique and increasing the rate of dissolution, the technology allows for faster and more complete absorption in the intestine, resulting in a faster onset of action.

Combination Products

Novel combinations of active compounds can represent a powerful approach to meet therapeutic needs that are not addressed by existing pharmaceuticals independently. OX 17 (PPI/H2-receptor antagonist) reflects such an approach, where two active compounds, by a dual mechanism of action, improve upon existing pharmacological treatments of GERD. Orexo's proprietary formulation technology further enhances the combination of the active compounds.

Competition

Orexo's principal competitors are pharmaceutical companies with products targeting the same therapeutic needs as Orexo's products and product candidates. See the "Competition" subsection under each of the products and product candidates described under the section entitled "Business – Current Product and Project Portfolio" for a discussion of the competitive situation for Orexo in its various product markets. In addition, in cases where Orexo aims to partner with pharmaceutical companies to assist those companies in managing their product lifecycles, Orexo's competitors will include other drug delivery technology companies.

Suppliers

The Company's suppliers comprise mainly large international suppliers, which supply raw materials and goods for use in the Company's different products and projects. These raw materials and goods consist principally of substances frequently used in dry formulation pharmaceutical development and active compounds. The Company currently uses a number of different suppliers and Orexo's management believes that the Company is not dependent on any particular supplier for its products or projects.

Material agreements

Orexo has not entered into any agreements of material importance for the Company's business other than the agreements described in the section entitled "Business – OX – Treatment of Acute Pain in Cancer Patients – Collaborations ".

Intellectual Property Rights

Orexo's management believes that Orexo has a strong intellectual property portfolio, with a number of granted patents and pending patent applications.

The procedure for obtaining a patent is typically started by filing a national patent application in a patent office of a territory party to the Paris Convention for the Protection of Intellectual Property. Most major industrialised countries are parties to the Paris Convention. This national application can provide a so-called "priority date" for the invention disclosed in this "priority" application such that the patentability of the invention is assessed as of that date. This priority date can be made effective for further patent applications filed in other Paris Convention territories provided that these further patent applications are filed within 12 months of the first priority application.

Although it is possible to file individual national or regional patent applications in those Paris Convention territories in which protection is sought, each claiming the right to priority based on the priority application, it is common to file an "international" or "PCT" (Patent Cooperation Treaty) application. This is a single application, which can provide a filing date in any of those territories which are party to the PCT and which are specified in the PCT application. Thus, a PCT application is, effectively, a bundle of separate territorial applications, each of which has the potential of becoming a national or regional patent application if the appropriate steps are taken. No patent can be granted directly from a PCT application and the right to grant a patent is left to the national or regional laws as implemented by the national or regional patent offices. Most major industrialised countries (including the United States, Japan and major European countries) are parties to the PCT.

Patent applications (and in particular the "claims" which define the protection the patent applicant is seeking) are searched and examined by the relevant patent office before a patent is granted. The purpose of the search is to identify documents (and possibly other prior disclosures) which are relevant in assessing whether the invention claimed in the patent application is new and non-obvious; the purpose of the examination is for a patent office examiner to assess whether the claimed invention meets all the requirements of patentability. The examination process is an interactive procedure between the patent examiner and patent applicant in which the patent applicant may have to put forward arguments and evidence to rebut objections that the patent examiner may have to the patent application. The patent applicant may have to amend the claims to its invention during the procedure.

A PCT application is searched and it may also be examined to provide a basis for rendering a non-binding opinion on the patentability of the claimed invention. In order to continue with the application in the specified territories it must be processed in the national or regional patent offices typically within approximately two and a half years from the first priority date. These separate national and regional patent applications are typically searched and examined further by the national and regional patent offices which determine whether a patent is to be granted.

Many European countries are now parties to the European Patent Convention (EPC), which allows the European Patent Office (EPO) to search and examine a European regional patent application. The EPO is a party to the PCT so it is common to specify the EPO on a PCT application as a regional application. A European patent application may specify any territory which is party to the EPC. When a European patent is granted it is, effectively, a bundle of national patents which will, if appropriate action is taken, take effect nationally and will be enforceable under the national law. It should be noted that the number of territories which are party to the EPC has increased considerably over recent years and that not all were party to the convention at the time the patent cases listed below were filed.

Orexo has applied for patent protection for 15 inventions with respect to which seven patents have been granted protection in at least some of the designated countries. The number of patent registrations awarded for any of the inventions in any specified country amounts to approximately 90 within Orexo's 15 patent families. The corresponding number of patent applications held and not yet granted is approximately 60. In addition to the foregoing, Orexo has acquired two granted patents.

For most of these inventions, Orexo has used the PCT system with a view to obtaining broad protection. All of these PCT applications have now been nationally (or in the case of EPC applications, regionally) filed so as to cover in most instances all major markets in Europe, North America, Japan, Australia and New Zealand and others.

Orexo has an active patent strategy with a patent portfolio covering the following areas: new formulations, new routes of administration, new use and new combinations. The Company aims to secure intellectual property protection for its inventions and products in all major markets. In most countries the term awarded a granted patent is 20 years from the date of application (usually about a year after the priority dates listed below) with, under some circumstances, and in some countries, the potential for patent term prolongation for up to five years.

The Company has been granted patents for the inventions described below. The product or product candidate to which the respective invention relates is indicated below in italics.

(i) Diagnostic preparation for detection of ongoing Helicobacter pylori infection, pursuant to PCT/SE95/01212, priority date November 2, 1994; granted in Australia, Austria, Belgium, Canada, Denmark, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States. *Diabact® UBT.* (The EPO patent (from which the above patents in Austria, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, Switzerland and the United Kingdom are pursuant) is the subject of an opposition that was filed May 2005. Orexo does not believe that the opposition will have any effect on the marketing of Diabact® UBT.)

(ii) Preparation for the detection of urease activity in the gastric tract, pursuant to PCT/SE97/00659, priority date April 30, 1996; granted in Australia, Bulgaria, China, Denmark, Estonia, Finland, France, Germany, Greece, Ireland, Italy, New Zealand, Poland, Spain, Sweden and the United Kingdom. Applications have also been filed and are pending in Canada, Hungary and Japan. *Diabact® UBT.*

(iii) Prevention of sudden infant death, pursuant to PCT/SE96/01428, priority date November 7, 1995; granted in Austria, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Monaco, the Netherlands, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States.

(iv) Fentanyl composition for the treatment of acute pain, pursuant to PCT/SE99/01688, priority date September 24, 1998; granted in Australia, Austria, Belgium, China, Cyprus, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Mexico, Monaco, the Netherlands, New Zealand, Portugal, Russia, Slovakia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. Applications have also been filed and are pending in Brazil, Bulgaria, Canada, the Czech Republic, Estonia, Hungary, Israel, Japan, Norway, Poland and South Korea. *OX 20.*

(v) Pharmaceutical composition for the treatment of acute disorders, pursuant to PCT/SE99/01687, priority date September 24, 1998; granted in Australia, China, Japan, Mexico, New Zealand, Russia, Slovakia, Turkey and the United States. Applications have also been filed and are pending with the EPO and in Brazil, Bulgaria, Canada, the Czech Republic, Estonia, Hungary, Israel, Norway, Poland, South Korea and the United States. *OX 19, OX 20, OX 22 and OX 40.*

(vi) Methods and means for detecting inflammatory processes, pursuant to PCT/SE00/02054, priority date October 26, 1999; granted in New Zealand. Applications have been filed with the EPO and in Australia, Canada, Japan and the United States.

(vii) Gastric acid secretion inhibiting composition, pursuant to PCT/SE02/00757, priority date April 18, 2001; granted in China and New Zealand. Applications have been filed with the EPO and in Australia, Canada and the United States. *OX 17.*

(viii) Pharmaceutical composition, pursuant to ,EP0324725, priority date January 13, 1988; granted in France, Germany, Switzerland and the United Kingdom.

(ix) Pharmaceutical composition for rapidly releasing an active pharmaceutical substance, pursuant to SE19910001027, priority date April 8, 1991; granted in Sweden.

Applications have also been filed for the following inventions:

(i) Gastric acid secretion inhibiting composition, pursuant to PCT/SE03/01598, priority date October 16, 2002. Applications have been filed with the EPO and in Australia, Canada, China, India, Israel, Japan, Mexico, New Zealand, Norway, Poland, Russia, South Korea and the United States. *OX 17.*

(ii) Sublingual composition based on carrier particles with low water-solubility, pursuant to PCT/SE2004/00037, priority date January 31, 2003. Applications have been filed with the EPO and in Australia, Canada, China, India, Israel, Japan, Mexico, New Zealand, Norway, Poland, Russia, South Korea and the United States.

Furthermore, Orexo has filed the following priority-establishing applications (unpublished):

(i) New pharmaceutical formulations, UK patent application No. 0423800.2, filed on 27 October 2004.

(ii) New pharmaceutical compositions, U.S. patent application No. 60/651210, filed on 10 February 2005.

(iii) New pharmaceutical composition, U.S. patent application No. 60/665378, filed on 28 March 2005.

(iv) New pharmaceutical composition, U.S. patent application No. 60/665377, filed on 28 March 2005.

(v) New pharmaceutical composition, U.S. patent application No. 60/665376, filed on 28 March 2005.

(vi) New dissolution method, U.S. patent application No. 60/665375, filed on 28 March 2005.

Orexo's patents are prosecuted in several countries and thus become subject to several examination proceedings which may give rise to different objections. As a matter of practice, the applicant is generally given the opportunity to respond to such objections by amending or clarifying the application. In such instances, the patent may still be granted but the scope of the protection may be affected and the extent of protection of a granted patent may thus vary between different jurisdictions. For a discussion regarding risks associated with Orexo's intellectual property, see the section entitled "Risk Factors – Risks Associated with Orexo's Intellectual Property".

Sales and Marketing

Orexo currently has no sales and marketing infrastructure. Sales of Diabact® UBT are carried out by distributors. See the section entitled "Diabact® UBT – Diagnostic Pharmaceutical for Detection of Helicobacter Pylori Infection – Collaborations and Commercialization". Orexo's management believes that with certain financial investments and resources, the Company can establish its own sales organization for certain products in selected European markets including the Nordic region. Orexo continually evaluates how to pursue the commercialization of its products. Orexo's marketing strategies for a product in a geographic market may include both the securing of partnership agreements with selected pharmaceutical companies and the establishment of its own sales organization or a combination of these. Having its own sales organization could result in Orexo being able to better control the Company's revenue stream and achieve higher profit margins from product sales and limit the Company's dependence on outlicensing partners. For each of its products and markets, Orexo carefully evaluates which marketing strategy that it deems most appropriate.

Academic Collaborations

Orexo has close cooperations with a number of universities in Sweden and abroad. Orexo has, in particular within the field of research relating to the gastrointestinal area and through clinical trials, established cooperations with several academic institutions, including primarily the University of Wisconsin at Milkawaukee, the United States, the Universitá di Bologna, Italy, the University Hospital in Helsinki, Finland, and Göteborg and Uppsala University, Sweden.

Manufacturing

Orexo owns a manufacturing plant in leased facilities in Uppsala where the Company manufactures Diabact® UBT and product candidates, such as OX 20 and OX 22, for clinical trials and up to pilot scale. Orexo's management does not intend for the Company to have its own production facilities for the commercial production of Orexo's products, with the exception of Diabact® UBT. Instead, Orexo plans to outsource full-scale production of its potential future products through license agreements entered into with strategic partners and through contract manufacturing. Orexo does, however, have the ability to prepare a new product for large-scale production.

Human Resources

As of September 30, 2005, Orexo had 40 full-time employees, five of which were temporary employees and one of which was employed by Orexo's subsidiary Kibion. Of its employees, 26 were engaged in research and development and included mainly galenic pharmacists, analytical chemists, clinicians and specialists in regulatory affairs and intellectual property. Of Orexo's 40 employees, six hold Ph.D. degrees and 22 hold other advanced degrees. Of these employees, 26 were women and 14 were men. Orexo is not bound by any collective bargaining agreement. The average age of Orexo's employees is 42 years and the median age is 43 years. Orexo has not experienced any work stoppages. Orexo's management believes that relations with the employees are good. The Company has had very low staff turnover with only four employees having resigned since Orexo commenced business operations in 1995.

Future staff recruitments are anticipated to be modest, and are expected to mainly be in the area of product development. If Orexo decides to establish a sales organization for OX 20, additional recruitment will be required. Orexo's core operations require highly skilled and experienced personnel. Orexo's management believes that being headquartered in Uppsala, where several pharmaceutical, biotechnology and other life sciences companies are situated, is beneficial when seeking to hire such personnel. See the section entitled "Risk Factors – Orexo's success is dependent on key personnel".

Orexo's management believes that Orexo has sufficient personnel and research and development capacity to handle its current product pipeline, but that it could need to expand its organization in order to enable the pursuit of more projects in parallel.

While Orexo's core competencies are within research, development, clinical and regulatory affairs, the Company also has international, commercial and operational competence.

Facilities

Orexo's corporate headquarters and center of operations are located at Kungsgatan 109 in Uppsala, Sweden, where Orexo leases 1,745 square meters of combined office, Good Manufacturing Standard ("GMP") production facilities and laboratory premises. The lease term expires on February 29, 2008 subject to automatic extensions for additional three-year periods if notice of termination is not given nine months prior to expiry. In addition to the foregoing, Orexo leases certain other minor premises. Orexo's production facility has been approved by the Swedish Medical Product Agency (Sw. Läkemedelsverket) and complies with international quality requirements (GMP) for production of non-sterile pharmaceuticals. Orexo does not own any real property. Orexo's management believes that, based on the Company's current expansion plans, the Company's facilities are adequate. See the sections entitled "Background and Reasons for the Offering" and "Use of Proceeds".

Insurance

Orexo holds insurance policies covering Orexo in respect of property and business interruption, with sums insured up to the full value of its equipment and other assets. The indemnity period for business interruption is 12 months. Orexo also holds insurance policies covering Orexo in respect of general liability and litigation. Orexo also has a directors and officers liability insurance policy and a business travel and transport insurance policy. Orexo is a member of the Pharmaceutical Insurance Association and is covered by the association's product liability insurance relating to side effects of pharmaceuticals. The type and amounts of insurance that Orexo holds are, in the judgment of Orexo's management, adequate for the operation of its business.

Environmental

Orexo conducts pharmaceutical research and development in its facilities in Sweden. As a result, Orexo is subject to Swedish Environmental Code regulations. In particular, these regulations address air emissions, discharge of waste water, other releases into the environment, and the generation, handling, storage, transportation, treatment and disposal of waste.

Orexo's policy is to conduct its business with as little impact as possible on the environment. Orexo's management believes that Orexo is in substantial compliance with applicable material environmental, health and safety laws and regulations and provides workplaces for employees that are safe and environmentally sound. Orexo has been informed by the Swedish Board of Environmental and Health Issues (Sw. Miljö- och hälsoskyddsnämnden) that a permit is required with respect to the business activities carried out by the Company and has been requested to apply for such permit prior to December 31, 2006. Orexo's management intends to file for such permit in advance of December 31, 2006, and believes that the permit will be granted.

Legal Proceedings

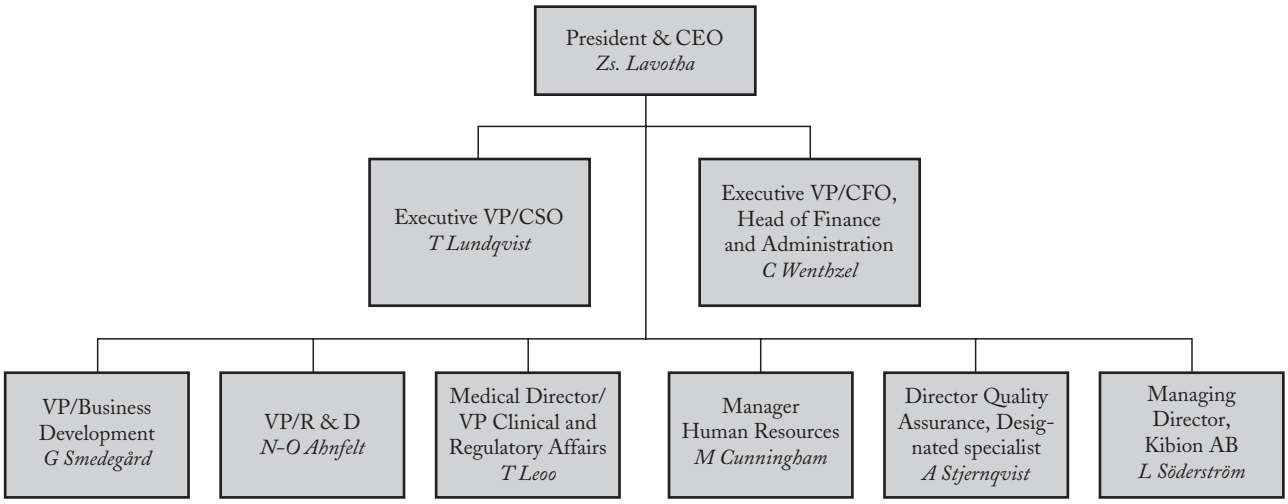
Orexo is not aware of any current or threatened litigation or disputed claims, arbitration or regulatory authority actions or legal proceedings against it that have had or would reasonably be expected to have a material effect on its financial condition or which would reasonably be expected to materially affect Orexo's operations or assets. Orexo is not aware of any circumstances that might give rise to any litigation, claim, arbitration, action or proceeding that would reasonably be expected to have such a material effect.

Legal and Operational Structure

Orexo owns all 100,000 shares in Pharmacall AB ("Pharmacall") (registration number 556569-1739) and all 321,279 shares in Kibion AB (formerly CePeP AB, registration number 556610-9814). Pharmacall and Kibion have their registered offices in Uppsala. Pharmacall was founded in 1999 and has been used as a vehicle to hold warrants to subscribe for shares in Orexo that have been issued in connection with Orexo's share-based incentive plans. Kibion was founded in 2001 and Orexo acquired Kibion in 2003. The previous business of Kibion, based on cell penetrating peptide technology, was sold during 2005. At present all business relating to Diabact® UBT is conducted in Kibion.

Orexo's operations center on the administration and execution of the drug delivery and product development process. Orexo manages this process by allocating the research and development efforts to be performed internally and externally through discovery, development and pharmaceutical collaborations with other research companies, contract research organizations and academic institutions.

The current operational structure of Orexo is shown in the chart below.



Regulatory Matters

Overview

Orexo's business is subject to significant government regulation. Regulatory authorities around the world administer numerous laws and regulations regarding the development, production and sale of pharmaceuticals, and also review the quality, safety and efficacy of pharmaceutical products. Extensive controls exist on the non-clinical and clinical development of pharmaceutical products. These regulatory requirements are important in determining whether a compound can be developed into a marketable product and the amount of time and expense associated with that development.

In traditional drug discovery and development, a pharmaceutical product candidate must undergo exhaustive and lengthy non-clinical and clinical trials before it is approved for marketing. The time required to develop a new pharmaceutical, from target identification and validation to commercial registration and product launch, varies considerably but takes, based on estimates of Orexo's management, on average approximately 10-12 years. With pharmaceuticals that utilize drug delivery technologies such as those developed by Orexo, however, the development time is often substantially shorter because the new drug delivery technologies are combined with well documented active compounds that have already undergone extensive clinical trials. See the section entitled "Overview of the Drug Delivery Market – Key Drivers of the Drug Delivery Market".

After a pharmaceutical has been approved and launched, it is a condition of the product license that all aspects relating to its quality, safety and efficacy must be kept under review. During the marketing of a product, strict procedures must be in place to monitor, evaluate and report any potential adverse reactions. Where adverse reactions occur or it is deemed that they may occur, changes may be required to prescribing advice and to the product license. Depending on the relevant national regulatory scheme, fines and other penalties may be imposed for failure to adhere to the conditions of product licenses. In extreme cases, the product license may be revoked resulting in withdrawal of the product from the market. Orexo's promotional and marketing activities are also tightly controlled by regulations and self-regulating codes of ethical marketing practices.

Product Legislation and Other Regulations

United States

Pharmaceutical products are subject to extensive regulation by the FDA, including regulations that govern the quality, safety, efficacy, labeling, storage, record keeping, advertising, and promotion of products. The steps required before a new human pharmaceutical product can be marketed or shipped commercially in the United States include the following:

- completion of pre-clinical laboratory and animal testing;
- the filing of an Investigational New Drug (IND) application which must become effective before clinical trials may begin;
- completion of adequate and well controlled human clinical trials to establish the safety and efficacy of the pharmaceutical for its proposed intended use;
- completion of manufacturing process validation; and
- for new pharmaceuticals, the FDA must approve a new drug application, commonly referred to as an NDA.

Satisfaction of FDA pre-market approval requirements for new pharmaceuticals typically takes several years and the actual time required for FDA action on an NDA may vary considerably depending on various factors, including the characteristics of the pharmaceutical, whether the FDA needs more information than is originally provided in the NDA, and whether or not the FDA is satisfied with the evidence submitted. However, if the FDA has previously approved pharmaceuticals with the same active compounds contained in Orexo's reformulated product candidates, this approval process may be shorter.

Some of Orexo's pharmaceutical products may be eligible for approval by the FDA under the Section 505(b)(2) approval process of the U.S. Federal Food, Drug and Cosmetic Act. Section 505(b)(2) applications may be submitted for pharmaceutical products that represent a modification of a listed pharmaceutical (e.g. a new dosage form or route of administration) and for which investigations other than bioavailability or bioequivalence studies are essential to the pharmaceutical's approval. Section 505(b)(2) applications may rely on the FDA's previous findings for the safety and effectiveness of the listed pharmaceutical as well as information obtained by the 505(b)(2) applicant needed to support the modification of the listed pharmaceutical. Preparing Section 505(b)(2) applications is also generally less costly and time-consuming than preparing an NDA based entirely on new data and information. The FDA's current regulations governing Section 505(b)(2) or its current working policies, based on its interpretation of those regulations (whether the regulation is changed or not), may change in such a way as to adversely impact Orexo's or its collaborating partners' applications for approval that seek to utilize the Section 505(b)(2) approach to reduce the time and effort required to seek approval. Such changes could result in additional costs associated with additional studies or clinical trials and delays. Section 505(b)(2) applications may be delayed because of market exclusivity awarded to the listed pharmaceutical or because patent rights are being adjudicated.

In addition, the Controlled Substances Act of 1970 (the "CSA"), which is administered by the DEA, imposes various registration, record-keeping and reporting requirements, procurement and manufacturing quotas, labeling and packaging requirements, security controls and a restriction on prescription refills on certain pharmaceutical products. Controlled substances listed on Schedule II of the CSA, including fentanyl, the active compound in OX 20, for example, are subject to the maximum amount of control possible under the CSA for approved drug products. The FDA actively monitors abuse, misuse, and diversion of controlled substances and may mandate changes to prescription requirements and add or revise warning and precautionary language on product labels.

The European Union

In the European Union, there are two main procedures for applying for marketing authorization of a new pharmaceutical: the centralized procedure and the mutual recognition procedure. The rules governing the granting of marketing authorizations for new pharmaceuticals in the European Union were modified by Directive 2004/27 and Regulation 726/2004 which will enter into force during the autumn of 2005.

Centralized Procedure

Under this procedure, applications are made to the European Medicines Agency ("EMEA"), for an authorization, which is valid across all European Union member states. The centralized procedure is mandatory for medicinal products manufactured using biotechnological processes, and optional for other innovative medicinal products. As of November 20, 2005, the centralized procedure will also be mandatory for orphan medicines as well as new active substances for which the therapeutic indication is the treatment of AIDS, cancer, neurodegenerative disorder or diabetes. The list of medicines for which the centralized procedure is mandatory will be further expanded by May 20, 2008.

When a pharmaceutical or biotechnology company has gathered data, which it believes sufficiently demonstrates a pharmaceutical's quality, safety and efficacy, then the company may submit an application to the EMEA. The EMEA reviews the application during a 210-day evaluation period. The EMEA then drafts an opinion as to whether the authorization should be granted, which is sent to the European Commission. The Commission then confirms that the marketing authorization complies with European community law and takes the final decision on whether to grant the authorization. Once the application has been approved by the European Commission, the marketing authorization becomes valid in all European Union member states.

Mutual Recognition Procedure

Under this procedure, applications are first made to a single European Union member state. Once authorization has been granted in accordance with the relevant national regulatory scheme, other member states are required to recognize the reference state's marketing authorization. The mutual recognition procedure is subject to new legislation which must be implemented by the member states by October 30, 2005. Under the new procedure, upon request from the marketing authorization holder, the reference state has 90 days to prepare an assessment report on the medicinal product. The reference report is sent to the member state(s) concerned and must be approved by these states within an additional 90 days. Each member state to which an application has been made then grants separate marketing authorizations for the product. Special procedures are available if a member state cannot approve the assessment report on grounds of public health.

For the moment, some of the ten new member states that joined the European Union on May 1, 2004 have transitional periods for some aspects of the full implementation of the new legislation, which has resulted in differences in the applicable rules in such member states, including the rules for regulatory data protection.

Pharmacovigilance

In the interest of safeguarding the quality, safety and efficacy of medicinal products, marketing authorization holders must have an appropriate system of pharmacovigilance in place for reporting any suspected adverse reactions to medicinal products and to assure responsibility and liability for its products on the market. Each authorized holder must select a qualified person responsible for pharmacovigilance and regular reports including adverse drug reaction reports and periodic safety update reports must be submitted to the competent authorities of the member states, where the medicinal product is authorized, or to the EMEA.

BOARD OF DIRECTORS, MANAGEMENT AND AUDITORS

Board of Directors

At present, Orexo's board of directors is composed of eight members, including the chairman. Orexo's board does not have any deputy directors. The current directors on Orexo's board, including their age and positions and the years of their original election, are as follows:

Name	Director Since	Age	Position
Håkan Åström	2003	58	Chairman
Monica Caneman	2004	51	Director
Johan Christenson	2002	47	Director
Hans-Peter Hasler	2005	49	Director
Zsolt Lavotha	2003	55	Director
Staffan Lindstrand	2002	43	Director
John Sjögren	2005	72	Director
Kjell Strandberg	2003	67	Director

Håkan Åström (born 1947). Chairman of the board and director since 2003. M.Sc. Bus. Adm. Mr. Åström is chairman of the boards of directors of Biovitrum AB, Biolipox AB, Ferrosan A/S and Sanos A/S, and a board member of Karolinska Institutet and Topotarget A/S. Mr. Åström has worked in the pharmaceutical industry ever since graduating from the Stockholm School of Economics. He has been President of a number of companies, such as Travenol AB (now owned by Baxter International Inc.), Astra Pharmaceuticals Ltd., United Kingdom, and Kabi Pharmacia AB. In his most recent position, Mr. Åström was Senior Vice President of Pharmacia Corporation, in charge of the group's strategy and communication. Concurrently, he was President of Pharmacia AB. Mr. Åström holds an Honorary Doctorate in Medicine at the Sahlgrenska Academy in Gothenburg.

Monica Caneman (born 1954). Director since 2004. M.Sc. Bus. Adm. Ms. Caneman is chairman of the boards of directors of EDT A/S, Interverbum Holding AB and Point International A/S. She is also a board member of Akademikliniken HJ AB, Citymail AB, Investment AB Öresund, Lindorff Group AB, Nya Livförsäkrings AB SEB TryggLiv, Poolia AB, SJ AB, Svenska Dagbladet Holding AB, Xponcard Group AB, EDB Business Partner ASA and Schibstedt ASA. Ms. Caneman has worked at Skandinaviska Enskilda Banken for 25 years, where she has held various senior management positions including as Executive Vice President.

Johan Christenson (born 1958). Director since 2002. M.D., Ph.D. Dr. Christenson is a partner of HealthCap and serves on the boards of directors of Resistentia Pharmaceuticals AB, Topotarget A/S, Neuro3D SA, Core Valve SA and Cerenis SA. Prior to joining HealthCap, Dr. Christenson was responsible for SEB Företagsinvest's (the venture capital arm of Skandinaviska Enskilda Banken) healthcare portfolio. He has senior management experience as Project Director at Astra Pain Control and as Global Product Director and member of the management team at AstraZeneca's Pain Control Therapy Area. Dr. Christenson has four years of clinical specialist training in pediatrics and pediatric neurology.

Hans-Peter Hasler (born 1956). Director since 2005. Marketing Manager Certificate. Mr. Hasler is Senior Vice President and Head of International Business of BiogenIdec, a position he has held since 2004. Mr. Hasler has served as Senior Vice President, Head of Global Strategic Marketing in Wyeth-Ayerst Pharmaceuticals. Between 1993 and 2001, Mr. Hasler held various senior management positions at the Wyeth Pharmaceuticals. Prior to joining the Wyeth Pharmaceuticals, Mr. Hasler was Head of the Pharma Division at Abbott.

Zsolt Lavotha (born 1950). Director since 2003 and President and Chief Executive Officer since 2004. B.Sc. Biomedicine and Chemistry. Additionally, Mr. Lavotha serves on the boards of directors of Medivir AB, NeuroNova AB and Abeille Pharmaceuticals Inc. Until recently, he was President and Chief Executive Officer of Lavipharm Corporation. Mr. Lavotha has 30 years of experience in the pharmaceutical field and has worked for several multinational pharmaceutical companies, such as Pfizer and Wyeth, where he held senior positions including as Chief Executive of Europe, Africa and the Middle East.

Staffan Lindstrand (born 1962). Director since 2002. M.Sc. in Engineering. Mr. Lindstrand is a partner of HealthCap and serves on the boards of directors of Biotage AB, NeuroNova AB, Aerocrine AB, XCounter AB, Creative Peptides Sweden AB and OxThera AB. Prior to joining HealthCap in 1997, he gained over ten years of investment banking experience, mainly with Aros Securities.

John Sjögren (born 1933). Director since 2005. Ph. D. Associate Professor in industrial pharmacy at Uppsala University from 1973 to 1999. Dr. Sjögren serves on the boards of directors of Calabar AB and the National Pharmaceutical Development Programme of the Swedish Foundation for Strategic Research. Dr. Sjögren has directed pharmaceutical research at Astra Hässle in various senior positions between 1959 and 1995 and was member of the senior management board at Astra Hässle from 1984 to 1997.

Kjell Strandberg (born 1938). Director since 2003. M.D., Ph.D. Dr. Strandberg is Professor in pharmacotherapeutics and serves on the boards of Innate Pharmaceuticals AB, the Swedish Institute for Health Economics AB and the National Strategic Foundation for Research in Pharmacy and Clinical Pharmacology. He is chairman of the Regulatory Advisory Board of NDA Regulatory Services and was previously Director General of the Swedish Medical Products Agency.

Håkan Åström, Monica Caneman, Hans-Peter Hasler, Zsolt Lavotha, John Sjögren and Kjell Strandberg are unaffiliated with the Principal Shareholders. None of the above directors has any family relationship with any other director or with any member of Orexo's executive management.

Executive Management

The following table sets forth the names of the members of Orexo's executive management, their respective years of employment, their age and position.

Name	Year of Employment	Age	Position
Zsolt Lavotha	2004	55	President and Chief Executive Officer
Nils-Otto Ahnfelt	2005	52	Vice President and Head of Research and Development
Mona Cunningham	2004	41	Manager Human Resources
Thomas Lundqvist	1995	53	Executive Vice President and Chief Scientific Officer
Claes Wenthzel	2005	43	Executive Vice President and Chief Financial Officer

Zsolt Lavotha. See above.

Nils-Otto Ahnfelt (born 1953). Vice President and Head of Research and Development. Ph.D. in Analytical Pharmaceutical Chemistry. Dr. Ahnfelt joined the Company in 2005. Prior to joining Orexo in 2005, Dr. Ahnfelt was Head of Research and Development at Doxa AB. Dr. Ahnfelt has over 20 years of experience from the pharmaceutical and medical device industry. He has worked for 18 years in various management positions within Research and Development and marketing, including Director of Scientific Affairs, Global Business Management Ophthalmology and Senior Director for Pharmaceutical Development at Pharmacia.

Mona Cunningham (born 1964). Manager of Human Resources. University Certificate. Ms. Cunningham joined the Company in 2004. Ms. Cunningham has experience from several major life-science companies as well as from smaller, entrepreneurial businesses.

Thomas Lundqvist (born 1951). Executive Vice President and Chief Scientific Officer. M.Sc. Pharm. Mr. Lundqvist is one of Orexo's founders. He was director of the Company between 1995 and 2003 and its President between 1997 and 2002 and between December 2003 and April 2004. Mr. Lundqvist has a long experience working with the development of new pharmaceuticals. Prior to joining Orexo, he held the position of President in NeoPharma Production AB. In addition, Mr. Lundqvist has more than ten years of experience working at the Swedish Medical Product Agency (Sw. *Läkemedelsverket*).

Claes Wenthzel (born 1962). Executive Vice President and Chief Financial Officer. B.Sc. Bus. Adm. Mr. Wenthzel joined the Company in 2005. Prior to joining Orexo Mr. Wenthzel has among other things served as Vice President and Chief Financial Officer in the Stockholm Stock Exchange listed company Perbio Science AB and as Chief Financial Officer in the Stockholm Stock Exchange listed company Louis Gibeck AB. Mr. Wenthzel has a broad operational and financial experience from international companies.

None of the above members of executive management has any family relationship with any director or any other member of executive management.

The President and Chief Executive Officer Zsolt Lavotha is not resident in Sweden. As the Company's business is international, the President and other members of the executive management are required to spend a substantial part of their time outside Sweden. Furthermore, the Company believes that it has a strong management that act independently and Claes Wenthzel has been appointed first Vice President with responsibility for, inter alia, disclosing information. Hence, the board of directors believes that the place of residence of the President is not of any importance for the Company's business.

The number of members of the executive management decreased during 2005. However, all previous members of the Company's executive management still work in the Company with the same or similar assignments. Except for the members of the executive management above, Erik Bergman is Vice President Finance, Thomas Leoo is Medical Director and Vice President Clinical and Regulatory Affairs, Göran Smedegård is Vice President Business Development and Lena Söderström is Managing Director of Kibion AB.

Remuneration

The amount of remuneration to the board of directors, including the chairman of the board, is, as a general rule, determined by resolution at the annual general meeting of shareholders. The remuneration to the President and the other members of Orexo's executive management listed on page 74 may consist of fixed salary, pension and other benefits. Orexo is not a party to any agreements and has made no decisions regarding bonus or other variable remuneration to the Company's employees.

The total compensation for the fiscal year 2004, including salaries, pension payments and other benefits to the directors and the members of Orexo's executive management, excluding Nils-Otto Ahnfelt and Claes Wenthzel, amounted to SEK 700,000 and SEK 5.2 million, respectively. Of the total compensation to the directors, SEK 400,000 related to compensation to the chairman and 300,000 related to other directors. In addition, the chairman of the board Håkan Åström was awarded SEK 400,000 in remuneration for extra efforts relating to his work as chairman during the period from January to April 2004, in connection with the appointment of a new President and Chief Executive Officer. Orexo previously had an agreement with Kjell Strandberg Consulting AB, a company owned by Kjell Strandberg. The agreement was terminated on December 31, 2004. For further details, see the section entitled "Certain Relationships and Related Party Transactions". The total compensation for the fiscal year 2005, including salaries, pension payments and other benefits, to the members of Orexo's executive management is expected to amount to approximately SEK 6.5 million.

As of April 1, 2004, Mr. Zsolt Lavotha was appointed President and Chief Executive Officer of Orexo. The employment may be terminated by either party with a notice period of 12 months. Mr. Lavotha's monthly salary is SEK 225,000. In addition, Mr. Lavotha is entitled to other benefits amounting to approximately SEK 300,000 per annum, including accommodation and cost allowance. In connection with the appointment of Mr. Lavotha as President and Chief Executive Officer of Orexo, Mr. Lavotha received a one-time signing bonus of SEK 1.5 million. Mr. Lavotha is not entitled to any pension payments from Orexo.

The total compensation for the fiscal year 2004 to the other members of Orexo's executive management than the President, listed on page 74, excluding Nils-Otto Ahnfelt and Claes Wenthzel, amounted to SEK 2.1 million, which included SEK 1.7 million in fixed salary payments, SEK 0.4 million in other benefits and pension payments.

There were no bonus payments. The members of executive management are entitled to defined pension contributions to a pension scheme essentially corresponding to the premium levels under the Swedish ITP pension scheme. There are no undertakings from Orexo relating to early retirement of any member of the executive management. The employment agreements can be terminated with between three to 12 months' notice, which notice periods, with certain exceptions, are applicable regardless of which party terminates the employment. The main exception is that Orexo must always observe such longer notice periods that may be required by law. Monthly salary is to be paid during the applicable notice period. There are no additional agreements regarding severance payments with any of the members of executive management listed on page 74. The total compensation for the fiscal year 2005 to the other members of Orexo's executive management is expected to amount to approximately SEK 3.8 million, including SEK 3.0 million in fixed salary payments, SEK 0.8 million in other benefits and pension payments.

At the extraordinary general meeting of shareholders on September 16, 2005 it was resolved that the fee to Orexo's board of directors for the current term shall be SEK 1.7 million of which the chairman of the board Mr. Håkan Åström shall receive SEK 0.5 million according to a resolution by the board.

Orexo has not made any loans to, or given any guarantees or securities for the benefit of, its directors, members of executive management or auditors. None of the directors, members of executive management or auditors have either directly, or indirectly through closely held companies or immediate family, been engaged in business transactions with Orexo that are, or were not, on an arm's-length basis.

Share-Based Incentive Plans

Orexo has introduced share-based incentive plans, consisting of warrants and stock options, designed to promote the Company's long-term interests by motivating and rewarding certain of the Company's directors, members of executive management, other employees and certain other collaborators and business partners of the Company. Approximately 40 individuals have participated in Orexo's share-based incentive plans since 2002. Under these plans, warrants and stock options entitling holders to 852,000 new shares in Orexo, in the aggregate, (following a 250:1 share split, which has been implemented in connection with the offering) have been allocated as of September 30, 2005. Title to the warrants is transferred to the employee or other participant in the incentive plan directly upon allocation, whereas the stock options vest in three equal installments over a three-year period, provided that the holder remains either employed by or a member of the board of directors of Orexo on such date. As of September 30, 2005, stock options entitling to, in the aggregate, approximately 308,000 new shares (adjusted for the 250:1 share split) have been vested in the participants in the stock option plans. Each incentive plan is described in more detail below.

The table below sets forth all warrants and stock options issued under Orexo's incentive plans.

	Beneficial Ownership Prior to the Offering				Beneficial Ownership After the Offering
Type of Securities	Number of Securities (Stock Options/ Warrants)[1]	Number of Shares into which the Securities may be exercised[2]	Exercise price (SEK)	Percentage of Shares and Votes[3]	Percentage of Shares and Votes[3]
Issued and allocated options					
Stock Options 2002	1,013	253,250	9.2	2.3%	1.7%
Stock Options 2003[4]	114	28,500	12.7	0.3%	0.2%
Stock Options 2004[5]	500	125,000	18.1	1.1%	0.9%
Stock Options 2005:I	44	11,000	18.1	0.1%	0.1%
Stock Options 2005:II	200	50,000	53.6	0.5%	0.3%
Stock Options to new board members[6]	92	23,000	53,6	0.2%	0.2%
Warrants	558	139,500	9.2	1.3%	1.0%
Warrants	657	164,250	18.1	1.5%	1.1%
Warrants[7]	208	52,000	36.2	0.5%	0.4%
Warrants[8]	82	20,500	12.7	0.2%	0.1%
Subtotal	**3,468**	**867,000**	**–**	**8.0%**	**5.9%**
Issued but not allocated options					
Stock Options 2005/2006[9]	700	175,000	–	1.6%	1.2%
Warrants to hedge social security expenses[10]					
Warrants used for hedging 2002	479	119,750	9.2	1.1%	0.8%
Warrants used for hedging 2003 and 2005:I	80	20,000	12.7	0.2%	0.1%
Warrants used for hedging 2004	165	41,250	18.1	0.4%	0.3%
Warrants used for hedging 2005:II and new board members	98	24,500	53.6	0.2%	0.2%
Warrants used for hedging 2005/2006	235	58,750	4.0	0.5%	0.4%
All securities in the share-based incentive plans	**5,225**	**1,306,250**	**–**	**12.0%**	**9.0%**

1) One-third of the stock options vest per year: Stock Options 2002 vest beginning October 1, 2002, Stock Options 2003 vest beginning October 1, 2003, Stock Options 2004 vest beginning August 1, 2004, Stock Options 2005:I vest beginning January 1, 2005, Stock Options 2005:II and Stock Options to new board members vest beginning September 30, 2005 and Stock Options 2005/2006 vest beginning December 31, 2005.
2) Following a 250:1 share split, which has been implemented in connection with the offering, each vested warrant and stock option, respectively, may be exercised for 250 shares.
3) On a fully diluted basis after exercise of warrants.
4) One of these stock options has not been allocated.
5) 19 of these stock options have not been allocated.
6) Call options on warrants structured so that the call options should from a tax perspective be treated as so called stock options, which is a tax concept that means that potential gain is taxed as income.
7) In aggregate, 273 warrants were issued, of which 65 have been cancelled.
8) 40 of these warrants have not been allocated.
9) None of these stock options have been allocated. The exercise price of the stock options shall correspond to the market value of the Orexo shares at the time of allocation of the stock option. The exercise price of the underlying warrants is SEK 4.0 (adjusted for the 250:1 share split).
10) Warrants held by Orexo's subsidiary Pharmacall that are intended to hedge cash flows against social security expenses that may arise under the stock option plans.

Stock Options 2002

In 2002, Orexo implemented a stock option plan currently comprising 1,013 call options on warrants carrying rights to subscribe for, in the aggregate, 253,250 shares in Orexo (adjusted for the 250:1 share split). These stock options have been granted to employees and other key individuals free of charge. In order to secure delivery of shares under the options and as a hedge against social security expenses to be borne by Orexo upon exercise of the options, Orexo has issued 1,492 warrants carrying rights to subscribe for 373,000 new shares in the Company (adjusted for the 250:1 share split) to its wholly-owned subsidiary Pharmacall, of which 479 warrants carrying rights to subscribe for 119,750 new shares (adjusted for the 250:1 share split) are intended for hedging purposes.

The stock options vest in three equal installments on each of the first three anniversaries of October 1, 2002. If the employment ceases during the aforementioned vesting periods, stock options that have not yet vested are forfeited. The stock options expire on December 31, 2012 and the exercise price is SEK 9.2 per share (adjusted for the 250:1 share split). Exercise of the vested options may occur no earlier than at the earliest of: December 31, 2010; 360 days after the Company's shares are listed on a stock exchange or authorized marketplace or other similar listing; a tender offer accepted by the shareholders of the Company to such an extent that the bidder becomes the owner of more than 90% of all outstanding shares; or the approval of a general meeting of shareholders in the Company or by the board of directors to the effect that the requested exercise may be performed at a date other than that stated in the terms and conditions.

Stock Options 2003

In 2003, Orexo implemented a second stock option plan currently comprising 114 call options on warrants carrying rights to subscribe for, in the aggregate, 28,500 shares in Orexo (adjusted for the 250:1 share split), of which 113 call options have been granted to employees and other key individuals free of charge. In order to secure delivery of shares under the options and as a hedge against social security expenses to be borne by Orexo upon exercise of the options, Orexo has issued 238 warrants carrying rights to subscribe for 59,500 new shares in the Company (adjusted for the 250:1 share split) to Pharmacall, of which 65 warrants carrying rights to subscribe for 16,250 new shares (adjusted for the 250:1 share split) are intended for hedging purposes.

The stock options vest in three equal installments on each of the first three anniversaries of October 1, 2003. If the employment ceases during the aforementioned vesting periods, stock options that have not yet vested are forfeited. The stock options expire on December 31, 2013 and the exercise price is SEK 12.7 per share (adjusted for the 250:1 share split). Exercise of the vested options may occur no earlier than at the earliest of: December 31, 2011; 360 days after the Company's shares are listed on a stock exchange or authorized marketplace or other similar listing; a tender offer accepted by the shareholders of the Company to such an extent that the bidder becomes the owner of more than 90% of all outstanding shares; or the approval of a general meeting of shareholders in the Company or by board of directors to the effect that the requested exercise may be performed at a date other than that stated in the terms and conditions.

Stock Options 2004

In July 2004, Orexo's board of directors resolved to implement a third stock option plan currently comprising 500 call options on warrants carrying rights to subscribe for, in the aggregate, 125,000 shares in Orexo (adjusted for the 250:1 share split), of which 481 have been granted to employees and other key individuals free of charge. In order to secure delivery of shares under the options and as a hedge against social security expenses to be borne by Orexo upon exercise of the options, Orexo has issued 665 warrants carrying rights to subscribe for 166,250 new shares in the Company (adjusted for the 250:1 share split) to Pharmacall, of which 165 warrants carrying rights to subscribe for 41,250 new shares (adjusted for the 250:1 share split) are intended for hedging purposes.

The stock options vest in three equal installments on each of the first three anniversaries of August 1, 2004. If the employment ceases during the aforementioned vesting periods, stock options that have not yet vested are forfeited. The stock options expire on June 30, 2014 and the exercise price is SEK 18.1 per share (adjusted for the 250:1 share split). Exercise of the vested options may occur no earlier than at the earliset of: December 31, 2012; 360 days after the Company's shares are listed on a stock exchange or authorized marketplace or other similar listing; a tender offer accepted by the shareholders of the Company to such an extent that the bidder becomes the owner of more than 90%

John Sjögren and Hans-Peter Hasler were elected members of the board of directors in April and September 2005, respectively, and have not participated in previous incentive plans. Certain major shareholders considered it to be desirable to create equity incentives and to stimulate an increased interest for Orexo's business as well as to internationalize the board of directors, which was considered to require the ability to offer an incentive plan. Certain major shareholders proposed to the extraordinary shareholder's meeting on September 16, 2005, to resolve to grant stock options to John Sjögren and Hans-Peter Hasler in accordance with the above.

In order to secure delivery of shares under the options and as a hedge against social security expenses to be borne by Orexo upon exercise of the options, Orexo has issued 115 warrants carrying rights to subscribe for 28,750 new shares in the Company (adjusted for the 250:1 share split) to Pharmacall, of which 23 warrants carrying rights to subscribe for 5,750 new shares (adjusted for the 250:1 share split) are intended for hedging purposes.

The stock options vest in three equal installments on each of the first three anniversaries of September 30, 2005. If membership on the board of directors ceases during the aforementioned vesting periods, stock options that have not yet vested are forfeited. The stock options expire on September 30, 2015. Exercise of the vested options may occur no earlier than at the earliest of 360 days after the Company's shares are listed on a stock exchange or authorized marketplace or other similar listing; September 30, 2013; a change of control whereby a third party reaches at least 50% in ownership as measured under the Swedish Industry and Commerce Stock Exchange Committee's rules on disclosure of acquisition and transfer of shares; or the approval of a general meeting of shareholders in the Company or by the board of directors to the effect that the requested exercise may be performed at a date other than that stated in the terms and conditions. In all the abovementioned events, except for the first, the stock options vest in full.

Stock Options 2005/2006 not allocated

In September 2005, Orexo implemented a new stock option plan under which the board of directors are entitled to allocate up to 700 call options on warrants carrying rights to subscribe for, in the aggregate, 175,000 shares in Orexo (adjusted for the 250:1 share split). As of September 30, 2005 none of these stock options have been allocated. These stock options will be granted to employees and other key individuals. The exercise price shall correspond to the market value of the Orexo shares at the time of allocation of the stock option. In order to secure delivery of shares under the options and as a hedge against social security expenses to be borne by Orexo upon exercise of the options, Orexo has issued 935 warrants carrying rights to subscribe for 233,750 new shares in the Company (adjusted for the 250:1 share split) to Pharmacall, of which 235 warrants carrying rights to subscribe for 58,750 new shares (adjusted for the 250:1 share split) are intended for hedging purposes.

The stock options vest in three equal installments on each of the first three anniversaries of December 31, 2005. If the employment ceases during the aforementioned vesting periods, stock options that have not yet vested are forfeited. The stock options expire on December 31, 2015. Exercise of the vested options may occur no earlier than at the earliest of: 360 days after the Company's shares are listed on a stock exchange or authorized marketplace or other similar listing; December 31, 2013; a change of control whereby a third party reaches at least 50% in ownership as measured under the Swedish Industry and Commerce Stock Exchange Committee's rules on disclosure of acquisition and transfer of shares; or the approval of a general meeting of shareholders in the Company or by the board of directors to the effect that the requested exercise may be performed at a date other than that stated in the terms and conditions. In all the abovementioned events, except for the first, the stock options vest in full.

Social Security expenses in connection with stock options

As mentioned above, social security expenses that may result from the exercise of call options under the stock option plans have been hedged for cash flow purposes through warrants held by Pharmacall. However, for accounting purposes, Orexo is required to account for social security expenses as the established market value of the Company's shares increases. Provisions for the social security expenses are made over the vesting period.

Warrants

In 2002, Orexo issued 558 warrants carrying rights to subscribe for 139,500 new shares in the Company (adjusted for the 250:1 share split) to Pharmacall, which warrants were acquired by certain individuals, including, during 2004, Håkan Åström. Mr. Åström acquired 230 warrants carrying rights to subscribe for 57,500 new shares in the Company (adjusted for the 250:1 share split) on what the board of directors estimated to be arm's length terms for an aggregate purchase price of approximately SEK 414,000. The warrants are exercisable until December 31, 2012 at an exercise price of SEK 9.2 per share (adjusted for the 250:1 share split).

In 2003, Orexo issued 273 warrants carrying the rights to subscribe for 68,250 new shares in the Company (adjusted for the 250:1 share split) to Pharmacall, out of which 208 warrants carrying the rights to subscribe for 52,000 new shares in the Company (adjusted for the 250:1 share split) have been granted to five former employees of Kibion (formerly CePeP AB) in exchange for their warrants in Kibion. The warrants are exercisable until June 1, 2009 at an exercise price of SEK 36.2 per share (adjusted for the 250:1 share split).

In April 2004, Orexo issued another 657 warrants carrying rights to subscribe for 164,250 new shares in the Company (adjusted for the 250:1 share split) to Pharmacall, which warrants were acquired by Zsolt Lavotha, together with 289 warrants carrying rights to subscribe for 72,250 new shares in the Company, on what the board of directors estimated to be arm's length terms, for an aggregate purchase price of approximately SEK 1.1 million. These 657 warrants are exercisable until March 31, 2011 at an exercise price of SEK 18.1 per share (adjusted for the 250:1 share split). The 289 warrants are exercisable until December 31, 2012 at an exercise price of SEK 9.2 per share (adjusted for the 250:1 share split).

In June 2005, Orexo granted 21 warrants carrying the rights to subscribe for 5,250 new shares in the Company (adjusted for the 250:1 share split) to each of Professor Vaira and Professor Vakil. Orexo also entered into a consultancy agreement with Professor Vakil under which he is entitled to receive 20 warrants in January 2006 and 20 warrants in January 2007. These 82 warrants carrying the rights to subscribe for 20,500 new shares in the Company (adjusted for the 250:1 share split) are exercisable until December 31, 2013 at an exercise price of SEK 12.7 per share (adjusted for the 250:1 share split).

Governance Issues

Under the Swedish Companies Act of 1975 (the "Swedish Companies Act"), Orexo's board of directors is ultimately responsible for the organization and the management of Orexo's affairs. Under Orexo's articles of association, the shareholders shall appoint between three and nine directors and up to three deputy directors.

In addition to the provision in a company's articles of association, Swedish law provides that, if the average number of employees of a company during the most recently expired fiscal year was at least 25, the unions representing the company's employees may appoint two additional directors and two deputy directors (or three, as the case may be, if the company is active in more than one industry and has at least 1,000 employees in Sweden).

Under Swedish law, the president and at least half of a company's directors must be resident in an European Economic Area country, unless exempted by the Swedish Companies Registration Office. Orexo's President Zsolt Lavotha has been granted an exemption from this requirement by the Swedish Companies Registration Office. Under Swedish law, a director's term of office (other than that of an employee representative) may not be more than four years, but is normally one year. Orexo's articles of association provide that directors shall be elected at the annual general meeting of shareholders for a period until the end of the next annual general meeting of shareholders. A director may, however, serve any number of consecutive terms.

Directors elected at the general meeting of shareholders may be removed from office by resolution of a meeting of shareholders, and vacancies on the board, except when filled by a deputy director, may only be filled by a resolution of shareholders. Each year, if not otherwise stipulated in Orexo's articles of association, one director is elected chairman of the board by a resolution of the board (unless elected by Orexo's shareholders) at the first meeting following its appointment.

In December 2004, the first Swedish Corporate Governance Code (the "Corporate Governance Code") was published by the Code Group of the Swedish Government Commission on Business Confidence. In April 2005, the Stockholm Stock Exchange announced its intention to amend the Stockholm Stock Exchange listing agreement to include the Corporate Governance Code, entailing that all Swedish companies on the A-list and all Swedish companies on the O-list with a market capitalization exceeding SEK 3 billion shall comply with the Corporate Governance Code as soon as possible after July 1, 2005, and that such companies must have finalized the implementation of the Corporate Governance Code prior to the annual general meetings of shareholders in 2006. The Corporate Governance Code is based on the principle of "comply or explain", meaning that a company bound by the Corporate Governance Code may deviate from the provisions set forth therein, provided that each and every deviation from the Corporate Governance Code is explained.

Under the Corporate Governance Code, a company will be required to have a shareholder-elected nomination committee consisting of at least three members, where a majority should be non-directors. The duties of the

nomination committee include proposing the directors to be elected at the general meeting of shareholders and the chairman of the board of directors, as well as proposing remuneration to the board of directors. The election and remuneration of auditors should be subjected to a similar committee procedure.

The Corporate Governance Code also contains rules for director independence and requires a majority of the directors to be independent from the company and its management. A director is deemed to not be independent in a number of situations, including if the director: is the president of the company or has been president of the company at any time during the last five years; receives significant remuneration for advice or services rendered in addition to his director remuneration; currently has or during the last year has had substantial business relations with the company or its affiliates; or has been a director of the company for more than 12 years. At least two of the directors who are independent from the company and senior management are also to be independent from all shareholders controlling more than 10% of the shares or votes of the company. Not more than one member of senior management of the company is allowed to also be a director of the company.

Under the Corporate Governance Code, a company is required to prepare a special report on corporate governance to be attached to the company's annual report. The report shall state that the company applies the Corporate Governance Code and briefly describe how the Corporate Governance Code has been applied during the last financial year. If any of the rules of the Corporate Governance Code have been deviated from, the reasons for each deviation shall be explained. Further, the Corporate Governance Code requires a report to be prepared annually on how the system of internal control is organized and how well it has functioned during the most recent financial year. The report on internal control is to be audited by the company's auditors.

Based on the offering price of SEK 90 per share, the market value of Orexo will be below SEK 3.0 billion and, hence, Orexo will not be required to comply with the Corporate Governance Code. The Corporate Governance Code forms part of the Company's guidelines relating to corporate governance matters and the Company applies the Corporate Governance Code in material respects in relation to the work of the board of directors. In the event the Corporate Governance Code becomes binding on the Company, the Company will comply with the Corporate Governance Code.

Committees of the Board

The Company has a Compensation Committee consisting of Håkan Åström, Johan Christenson and Zsolt Lavotha. The Compensation Committee meets when necessary to establish and review the remuneration and terms of employment of the members of Orexo's management.

Orexo has recently formed a Product Development Committee consisting of Johan Christenson, John Sjögren and Kjell Strandberg. The Product Development Committee shall meet two to three times a year, or when otherwise requested, to assist in developing citeria for prioritizing between new product ideas for Orexo's development portfolio.

In addition, Orexo has established an Audit Committee consisting of Håkan Åström, Monica Caneman and Staffan Lindstrand. The Audit Committee reviews Orexo's quarterly reports and submits the final version of such reports to the board of directors for approval and publication. The Audit Committee meets before each quarterly report and when deemed necessary. The Company's auditor participates in the meetings of the Audit Committee once or twice per year.

Compensation for work on board committees is determined by the board of directors within the overall remuneration granted to the board of directors by the general meeting of shareholders.

Auditors to Orexo

Mr. Ulf Hedefalk (born 1941) of Öhrlings PricewaterhouseCoopers AB was the auditor of Orexo from 1997 until 2003. Mr. Hedefalk became an authorized public accountant in 1976. At Orexo's annual general meeting of shareholders held on April 22, 2004, Öhrlings PricewaterhouseCoopers AB was appointed auditor to the Company with Mr. Leonard Daun as auditor in charge. Mr. Daun was born in 1964 and became an authorized public accountant in 1995.

The total compensation paid to Öhrlings PricewaterhouseCoopers AB in respect of the fiscal year 2004 was SEK 2.4 million. Of this amount, SEK 1.5 million related to audit services and SEK 0.9 million to non-audit services, including primarily advice regarding tax and accounting related issues.

PRINCIPAL SHAREHOLDERS

The tables below set forth certain information regarding the beneficial ownership of Orexo's shares as of September 30, 2005 adjusted for the 250:1 share split which has been implemented in connection with the offering, on an actual basis and as adjusted to give effect to the issue of shares in the offering, by persons who are directors of the board, members of executive management or by the Principal Shareholders and other persons known by Orexo to be beneficial owners of 3% or more of the shares and voting rights of Orexo. The percentages of beneficial ownership described in the tables are based on 9,572,250 shares outstanding immediately before the completion of the offering and 13,272,250 shares outstanding immediately after the completion of the offering, see the section entitled "Description of Share Capital – Share Capital". As of September 30, 2005, Orexo had 9,572,250 shares outstanding (adjusted for the 250:1 share split). All shares carry one vote.

	Beneficial Ownership Prior to the Offering[1]		Beneficial Ownership After the Offering[1, 2]	
	Number of Shares	Percentage of Shares and Votes	Number of Shares	Percentage of Shares and Votes
The Principal Shareholders	4,901,000	51.2%	4,901,000	36.9%
HealthCap 1999 ORX Holding AB	3,667,250	38.3%	3,667,250	27.6%
HealthCap Sidefund ORX Holding AB	987,750	10.3%	987,750	7.4%
HealthCap GbR ORX Holding AB	193,000	2.0%	193,000	1.5%
Odlander Fredrikson & Co AB[3, 4]	53,000	0.6%	53,000	0.4%
Thomas Lundqvist	757,500	7.9%	757,500	5.7%
Anders Pettersson	553,500	5.8%	553,500	4.2%
Catella Healthcare Investments AB	439,250	4.6%	439,250	3.3%
Catella Fokus[5]	382,500	4.0%	382,500	2.9%
Yvonne Håkansson	353,750	3.7%	353,750	2.7%
Christer Nyström	353,750	3.7%	353,750	2.7%
Others	1,831,000	19.1%	5,531,000	41.7%
Total	**9,572,250**	**100%**	**13,272,250**	**100%**

1) Assuming no exercise of warrants or stock options.

2) Assuming no exercise of the over-allotment option.

3) Odlander Fredrikson & Co AB, as member and on behalf of all other members, if any, of The OFCO Clubs.

4) The OFCO Clubs has undertaken to act in parallel with HealthCap, which is why The OFCO Clubs has been included in the table even though its shareholding does not represent more than 3% of the shares and votes in Orexo.

5) A mutual fund.

	Beneficial Ownership Prior to the Offering[1]				Beneficial Ownership After the Offering[1), 2)]
	Number of Shares	Number of Warrants[3)]	Number of Stock Options[3), 4)]	Percentage of Shares and Votes[5)]	Percentage of Shares and Votes[5)]
Directors and Executive Management					
Håkan Åström	17,000	230	–	0.2%	0.1%
Monica Caneman	18,750	–	46	0.2%	0.1%
Johan Christenson[6)]	–	–	–	–	–
Hans-Peter Hasler	–	–	46	–	–
Zsolt Lavotha	18,750	946	–	0.2%	0.1%
Staffan Lindstrand[7)]	–	–	–	–	–
John Sjögren	–	–	46	–	–
Kjell Strandberg	2,250	–	46	0.02%	0.02%
Nils-Otto Ahnfelt	–	–	15	–	–
Mona Cunningham	–	–	30	–	–
Thomas Lundqvist	757,500	–	–	7.9%	5.7%
Claes Wenthzel	–	–	200	–	–
All directors and executive management as a group (12 persons)	**814,250**	**1,176**	**429**	**8.5%**	**6.1%**

1) Assuming no exercise of warrants or stock options.

2) Assuming no exercise of the over-allotment option.

3) Following a 250:1 share split, which has been implemented in connection with the offering, each vested warrant and stock option, respectively, may be exercised for 250 shares.

4) The stock options vest in three equal installments each year. As of September 30, 2005, 30 of the stock options held by directors and members of executive management have vested.

5) Based on outstanding number of shares prior to and after the offering respectively, excluding stock options and warrants.

6) Mr. Christenson is a partner in HealthCap and was appointed as HealthCap's nominee on the board of directors of the Company in 2002. HealthCap's interest in the issued share capital of the Company is disclosed above. In addition, Mr. Christenson owns 216 shares in the Company through The OFCO Clubs.

7) Mr. Lindstrand is a partner in HealthCap and was appointed as HealthCap's nominee on the board of directors of the Company in 2002. HealthCap's interest in the issued share capital of the Company is disclosed above. In addition, Mr. Lindstrand owns 963 shares in the Company through The OFCO Clubs.

Following the completion of the offering, to the knowledge of Orexo's board of directors, there will be no shareholders' agreements relating to the Company's shares.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Consultancy Agreements

Orexo has entered into consultancy agreements with Porten Pharmaceutical AB, whose shares are owned by Dr. Christer Nyström, a former member of Orexo's board of directors, and Yvonne Håkansson (Dr. Christer Nyström's wife). The agreement with Porten Pharmaceutical AB was entered into in October 1997 and will remain in force until further notice. The agreement relates to expert services regarding quality assurance, pharmaceutical development and manufacture as well as management of patent preparation. The maximum fee payable under the agreement for any three-month period is SEK 216,000 exclusive of VAT. Aggregate fees under the agreement relating to the fiscal year ended December 31, 2004 amounted to SEK 830,000 exclusive of VAT. As of September 30, 2005, the aggregate accrued fees under the agreement for the current fiscal year amounted to SEK 545,000 exclusive of VAT.

Orexo previously had an agreement with Kjell Strandberg Consulting AB, a company owned by Kjell Strandberg, a member of Orexo's board of directors. The agreement was concluded in February 2004 and expired on December 31, 2004. Total remuneration under the agreement in the fiscal year 2004 amounted to SEK 22,000. No payment has been made under the agreement in 2005.

The amounts are exclusive of reimbursements by Orexo for the consultants' expenses.

Acquisition of Kibion and sale of the cell penetrating technology

In September 2003, Orexo acquired all the outstanding shares and the majority of the outstanding warrants carrying rights to subscribe for new shares in Kibion (formerly CePeP AB) in order to obtain control of the cell penetrating technology, held by Kibion. The acquisition was structured as a new issue in kind of shares in Orexo against a contribution in the form of all the outstanding shares in Kibion. The holders of outstanding warrants in Kibion (mainly employees) were offered to tender their warrants to Orexo in exchange for warrants to subscribe for new shares in Orexo. In accordance with the foregoing, warrants entitling holders to subscribe for, in the aggregate 52,000 new shares (adjusted for the 250:1 share split) in Orexo were granted in exchange for Kibion warrants.

HealthCap 1999 KB, HealthCap 1999 GbR and Odlander Fredrikson & Co AB (as member and on behalf of all other members, if any, of The OFCO Clubs) first invested in Kibion in 2001. Immediately prior to Orexo's acquisition of Kibion, HealthCap CPP 1999 KB, HealthCap 1999 GbR and Odlander Fredrikson & Co AB (as a member and on behalf of all other members, if any, of The OFCO Clubs) subscribed for, in the aggregate, 151,104 preference shares in Kibion at a subscription price of SEK 214 per share. This issue of preference shares resulted in an aggregate shareholding in Kibion of the aforementioned HealthCap entities of 221,279 preference shares. The other 100,000 shares in Kibion, all ordinary shares, were held by the founders of Kibion.

During the fourth quarter of 2004, Orexo resolved to change its strategy and to focus on other technologies than the cell penetrating peptide technology. However, Orexo believed that it would difficult to sell this technology and thus the entire value of the goodwill attributable to this business was written down in the annual financial statements of 2004. In April 2005, Orexo entered into negotiations with two of the founders of the CePeP business, Ülo Langel and Dr. Mattias Hällbrink who were interested in acquiring this business from Orexo, after which a transfer agreement was concluded. The transaction was carried out in May 2005, through a transfer of Orexo's cell penetrating peptide technology from Kibion to a newly established subsidiary, CePeP II AB. Following such asset transfer, CePeP II AB was sold to a company owned by Ülo Langel and Dr. Mattias Hällbrink at a purchase price of SEK 9.5 million. Orexo gave only limited representations and warranties in connection with the sale of CePeP II AB , and Orexo's maximum exposure under the share purchase agreement is limited to SEK 500,000.

DESCRIPTION OF SHARE CAPITAL

Set forth below is a summary of certain information concerning Orexo's shares and certain provisions of Orexo's articles of association and Swedish law in effect on the date of this offering circular. This summary contains substantially all material information concerning Orexo's shares. The summary does not purport to be complete and is qualified in its entirety by reference to Orexo's articles of association and applicable Swedish laws. Any change in Orexo's articles of association is subject to approval by a general meeting of shareholders.

General

Orexo is a public limited liability company incorporated under the laws of Sweden, and has its registered office in Uppsala, Sweden. Orexo was registered with the Swedish Patent and Registration Office on November 25, 1994, under registration number 556500-0600. Orexo has conducted business since 1995. Following completion of the offering, Orexo's share capital will be SEK 5,308,900, divided into 13,272,250 shares, each with a nominal value of SEK 0.40. In connection with the offering, new articles of association will enter into effect, as a result of which all shares of the Company will be of one class and all preference shares will be converted to shares. Consequently, there will be no preference shares outstanding or authorized for issuance following the completion of the offering.

Share Capital

The table below sets forth the changes in the share capital of Orexo since the Company's formation and through the registration of the new shares issued as a part of the offering:

Year	Transaction	Change in number of shares	Change in share capital (SEK)	Total number of shares	Total share capital (SEK)	Nominal value (SEK)
1994	Formation	500	50,000	500	50,000	100
1996	Bonus issue	500	50,000	1,000	100,000	100
1997	New issue	20	2,000	1,020	102,000	100
1998	Bonus issue	9,180	918,000	10,200	1,020,000	100
2000	New issue	600	60,000	10,800	1,080,000	100
2000	New issue	5,400	540,000	16,200	1,620,000	100
2002	New issue[1)]	8,830	883,000	25,030	2,503,000	100
2003	New issue[2)]	6	600	25,036	2,503,600	100
2003	New issue[3)]	9,242	924,200	34,278	3,427,800	100
2004	New issue[4)]	2,298	229,800	36,576	3,657,600	100
2004	New issue[5)]	376	37,600	36,952	3,695,200	100
2005	New issue[6)]	1,337	133,700	38,289	3,828,900	100
2005	Share split[7)]	9,533,961	–	9,572,250	3,828,900	0.4
2005	New issue[8)]	3,700,000	1,480,000	13,272,250	5,308,900	0.4

1) New issue of preference shares of series P1 directed to the Principal Shareholders in connection with their initial investment in the Company, at a subscription price of SEK 4,530 per share pursuant to a resolution by an extraordinary general meeting of shareholders held on April 11, 2002.

2) New issue of shares through the exercise of warrants at a subscription price of SEK 6,800 per share.

3) New issue of 6,365 preference shares of series P1 and 2,877 ordinary shares in connection with the acquisition of CePeP against contribution in the form of shares in CePeP pursuant to a resolution by an extraordinary general meeting of shareholders held on August 27, 2003.

4) New issue of preference shares of series P2 to the Principal Shareholders against set off of claims under a credit facility agreement and to Catella Fokus pursuant to a resolution of the board of directors of August 5, 2004. The subscription price per share was SEK 19,611.4.

5) New issue of preference shares of series P2 to shareholders and directors wishing to subscribe for shares on the same terms as Catella Fokus and the Principal Shareholders pursuant to a resolution of the board of directors of August 31, 2004.

6) New issue of shares through the exercise of warrants at a subscription price of SEK 100 per share. The warrants were issued together with shares issued under note (4) and (5) as units.

7) The 250:1 share split was resolved upon by the annual general meeting of shareholders held on April 20, 2005, which has been implemented in connection with the offering.

8) Reflecting the new issue of 3,700,000 shares in the offering.

Under Orexo's articles of association, which will enter into force in connection with the offering, the Company's fiscal year shall be the calendar year and its share capital must be between SEK 2,500,000 and SEK 10,000,000, represented by shares with a nominal value of SEK 0.40 each. Orexo's articles of association will also provide that the Company may only issue ordinary shares and that each share carries equal voting rights and equal right to participate in Orexo's assets and profit. At a general meeting of shareholders, all shareholders may vote for the full number of shares owned and represented by them without any restrictions on voting rights.

On April 20, 2005, the annual general meeting of shareholders in Orexo resolved to authorize the board of directors to decide to issue convertible debentures and debentures with warrants carrying rights to subscribe for new shares in the Company, such authorization being valid until the earlier of the next annual general meeting of shareholders and the listing of the shares of Orexo on a stock exchange or other organized marketplace. The authorization will thus not be valid after the completion of the offering.

On April 20, 2005, the annual general meeting of shareholders in Orexo resolved to authorize the board of directors to decide on new issues of shares, with departure from the shareholders preemptive rights, in connection with the offering, such authorization being valid until the next annual general meeting of shareholders. Such issues of shares may be decided upon on one or more occasions and must not result in the share capital exceeding the limit set out in Orexo's articles of association as adopted from time to time.

Orexo's board of directors has not been given any other authorization to decide on any new issue of Orexo shares or issues of convertible debt instruments or debt instruments with a right to subscribe for new shares other than as set out above.

Outstanding Warrants

As of September 30, 2005, warrants issued and outstanding entitle, in the aggregate, to subscription for 1,306,250 shares in Orexo, corresponding to an increase of the share capital of Orexo of SEK 522,500 and an increase in total shareholders' equity of SEK 18.9 million, excluding 700 stock options carrying rights to subscribe for 175,000 shares in Orexo (adjusted for the 250:1 share split) in the Stock Options 2005/2006 of which none have been allocated or priced.

Dividends

Under the Swedish Companies Act, only a general meeting of shareholders may authorize the payment of dividends. The amount of dividends paid may not exceed that recommended by a company's board of directors (except in certain limited circumstances) and may only be paid from funds legally available for that purpose. Under Swedish law, no interim dividends may be paid in respect of a financial period for which audited financial statements have not yet been adopted by the annual general meeting of shareholders. The market practice in Sweden is for dividends to be paid only annually.

Under the Swedish Companies Act, dividends to shareholders may not exceed an amount equal to (i) the aggregate of a company's consolidated net profit for that year, profits brought forward and non-restricted reserves less (ii) the sum of the amount of reported losses, any amount that is required by law or the company's articles of association to be allocated to restricted equity of the company and any amount that pursuant to the company's articles of association must be used for a purpose other than for dividends.

Further, the above calculation will be made on the basis of both the consolidated balance sheet and the parent company balance sheet. Under the Swedish Companies Act, the lower of the two results is recorded as the distributable earnings and is available for dividends.

Dividends may not be declared to the extent that their payment would be contrary to generally accepted business practices in light of a company's capital structure, liquidity or financial position.

Voting Rights

Holders of shares in Orexo are entitled to one vote per share at general meetings of shareholders. Under the Swedish Companies Act, resolutions are passed by a simple majority of votes cast at the meeting with the chairman of the meeting having the casting vote (except in respect of elections), unless otherwise required by law or a company's articles of association. According to the Swedish Companies Act, however, certain resolutions require special quorums and majorities, including, but not limited to, the following:

(i) a resolution to amend the articles of association requires a majority of two-thirds of the votes cast and two-thirds of the shares represented at the meeting;

(ii) a resolution to amend the articles of association which reduces any shareholder's rights to profits or assets, restricts the transferability of shares or alters the legal relationship between shares, normally requires unanimous approval of the shareholders present at the meeting, at which at least nine-tenths of all outstanding shares in the company are represented;

(iii) a resolution to amend the articles of association for the purpose of limiting the number of shares which a shareholder may vote at a general meeting of shareholders or requiring the retention of a larger amount of the net profit than required by the Swedish Companies Act or amending shareholders' rights in a liquidation or dissolution, normally requires the approval of shareholders representing a majority of two-thirds of the votes cast and nine-tenths of the shares represented at the meeting;

(iv) a resolution of the kind referred to under (ii) or (iii) above may, however, be taken with a lower supermajority requirement if the amendments referred to therein will only adversely affect specific shares or classes of shares. In such cases, the requirement under (i) above will apply together with the following separate supermajority: (a) where a class of shares is adversely affected, approval of the owners of half of all shares of such class and nine-tenths of the shares of such class represented at the meeting, or (b) where the shares adversely affected do not constitute a class of shares, the unanimous approval of the owners of such affected shares present at the meeting, at which at least nine-tenths of all such affected outstanding shares in the company are represented;

(v) a resolution to issue, approve or authorize the issuance for cash of new shares or convertible debt instruments or debt instruments with a right to subscribe for new shares with deviation from the preferential right for existing shareholders requires a majority of two-thirds of the votes cast and two-thirds of the shares represented at the meeting;

(vi) a resolution to redeem any or all of the outstanding share capital requires a majority of two-thirds of the votes cast and two-thirds of the shares represented at the meeting. In certain circumstances, however, such resolution requires unanimous approval of the shareholders present at the meeting, at which at least nine-tenths of all outstanding shares in the company are represented; and

(vii) a resolution to approve a merger requires a majority of two-thirds of the votes cast and two-thirds of the shares represented at the meeting.

General Meeting of Shareholders

According to the Swedish Companies Act, the annual general meeting of shareholders must be held within six months of the end of each fiscal year. An extraordinary general meeting of shareholders may be held whenever the board of directors deems it appropriate, or when the auditors or the holders of not less than 10% of all shares so request to the board of directors in writing for a specified purpose.

Notices of annual general meetings of shareholders shall be given not more than six and not less than four weeks prior to such meeting and notice of extraordinary general meetings of shareholders shall be given not more than

six and not less than two weeks prior to such meetings unless a resolution amending the articles of association is proposed, in which case notice of the meeting must be given no later than four weeks before the meeting. A shareholder may attend and vote at the meeting in person or may vote by proxy. Proxies are valid for a period not exceeding one year from the date of issuance. Each shareholder is entitled to cast the full number of votes represented by such holder's shares. A voting list of those present or represented at the general meeting of shareholders shall be prepared by the company.

The articles of association of Orexo provide that general meetings of shareholders shall be held in Uppsala or Stockholm. Notices to convene general meetings of shareholders, as well as other messages to the shareholders, shall be made through advertisement in the Swedish Official Gazette (Sw. *Post- och Inrikes Tidningar*) and Svenska Dagbladet or another national daily newspaper.

Preferential Rights to Subscribe for Shares

Under Swedish law, shareholders must approve each issue of additional shares. Existing shareholders (except for the company itself and its subsidiaries, in the event they hold shares in the company) have preferential rights in proportion to their shareholdings with respect to issues of shares for cash, convertible debt instruments and debt instruments with warrants to subscribe for new shares, unless the resolution for the issue itself or the articles of association provide otherwise. A resolution approving or authorizing an issuance for cash where the preferential right for existing shareholders is not to be applied requires a majority of two-thirds of the votes cast and two-thirds of the shares represented at the meeting.

Limitations on Voting and Shareholding

There are no limitations imposed by Swedish law or by the articles of association of Orexo on the rights of non-residents or foreign persons to hold or vote for the shares in Orexo other than limitations that apply to all shareholders.

Directors and Auditors

The articles of association of Orexo provide that the board of directors shall, to the extent it is appointed by the general meeting of shareholders, consist of not less than three and not more than nine directors with not more than three deputy directors. Directors and, where applicable, deputy directors shall be elected annually at the annual general meeting of shareholders for the time until the end of the next annual general meeting of shareholders.

The articles of association of Orexo further provide that one or two auditors and up to two deputy auditors shall, where applicable, be appointed at an annual general meeting of shareholders for a period until the end of the annual general meeting of shareholders held during the fourth fiscal year following the appointment of the auditors. An authorized public accountant or a registered public accounting firm shall be appointed auditor and, where applicable, deputy auditor.

Under Orexo's articles of association, the board of directors may, for a period not longer than until the end of the next annual general meeting of shareholders, appoint one or several special purpose auditors to audit a statement of the board of directors in connection with an issue of new shares where shares may be paid for in kind or subscribed for with a right to set-off or otherwise conditionally, or a merger scheme. An authorized public accountant or a registered public accounting firm shall be appointed as such special purpose auditor.

Miscellaneous

Under Swedish law, a general meeting of shareholders may not adopt any resolution and the board of directors or other representatives of a company may not enter into transactions or undertake other measures that contravene the principle of equal treatment of shareholders, are not to the benefit of the company or are likely to give an undue advantage to a single shareholder, a group of shareholders or a third party to the detriment of the company or any other of the company's shareholders, except with the consent of all shareholders.

In addition, under Swedish law, a general meeting of shareholders may not adopt any resolution and the board of directors or other representatives of the company may not enter into transactions or undertake other measures which contravene the company's object of business as stated in the articles of association. According to the articles of association of Orexo, the object of the Company's business shall be to, directly or indirectly, develop, manufacture, market and sell pharmaceutical products and diagnostic preparations, to own and manage real property and other property, as well as to carry out other activities compatible therewith.

Swedish law provides that if a Swedish parent company and its subsidiaries own more than 90% of the shares of any subsidiary, being a Swedish limited liability company (and such shares represent more than 90% of the voting rights of such subsidiary), the parent company is entitled to acquire the remaining outstanding shares in the subsidiary. In addition, a holder of shares subject to such a purchase right may require the parent company to purchase the holder's shares. The purchase price for the shares is determined pursuant to an arbitration proceeding, unless agreed by the parties.

Under Swedish law, limited liability companies are divided into two categories, private and public companies. Only the shares of public companies may be traded on a stock exchange or other organized market place. Orexo is a public limited liability company.

A public Swedish limited liability company whose shares are traded on a stock exchange, an authorized market place or another regulated market place is entitled to repurchase its own shares under certain conditions. A repurchase by a company of its own shares may take place only if (i) the repurchase has been authorized by a resolution passed at a general meeting of shareholders with a majority of two-thirds of votes cast and two-thirds of the shares represented at the meeting, (ii) the repurchase is effected on a stock exchange or in some other regulated market either in the EEA or outside the EEA (in the latter case, on a market approved by the SFSA) or pursuant to another offer to all shareholders or all holders of a specific class of shares, (iii) the funds used in connection with such purchase could legally have been distributed as a dividend, and (iv) the company and its subsidiaries do not hold or, as a result of the purchase, will not hold in excess of 10% of all outstanding shares in the company.

THE SWEDISH SECURITIES MARKET

Set forth below is a summary of certain information concerning the Swedish securities market and certain provisions of Swedish law and Swedish securities market regulations in effect on the date of this offering circular. The summary is qualified in its entirety by reference to Swedish laws and securities market regulations.

The Stockholm Stock Exchange

The Stockholm Stock Exchange is an authorized securities exchange in Sweden and the principal market on which shares, bonds, derivatives and other securities are traded in Sweden. There are two different lists for trading shares on the Stockholm Stock Exchange, and all transactions are executed through the Stockholm Stock Exchange's fully electronic trading system, the Stockholm Automated Exchange System, or SAXESS. The two lists of the Stockholm Stock Exchange are: (i) the A-list, which is for trading in shares in larger companies and accounts for approximately 90% of the trading volume on the Stockholm Stock Exchange; and (ii) the O-list, which mainly quotes the shares of companies which lack the requisite operating history to be traded on the A-list.

The Trading System

Trading on the Stockholm Stock Exchange is conducted on behalf of clients by banks and brokers. While banks and brokers are permitted to act as principals in trading both on and off the Stockholm Stock Exchange, they generally engage in transactions as agents. There are no market maker or specialist systems for equity securities on the Stockholm Stock Exchange for the cash market.

Trading in equities on the Stockholm Stock Exchange begins each morning at 9.00 a.m. Central European Time ("CET") at an opening price determined in an opening call starting at 8.45 a.m. CET. Trading is conducted via a computerized order-matching system, based on orders entered by Stockholm Stock Exchange members, and continues at prices based on market demand until 5.30 p.m. CET with a closing call starting at 5.20 p.m. CET. Buy and sell orders are registered on the system in round lots, typically of 100 shares, and odd lots are matched separately at the last price for round lots.

The Stockholm Stock Exchange is a fully electronic marketplace. Trading on SAXESS comprises all Swedish stocks traded on the Stockholm Stock Exchange. Member firms of the Stockholm Stock Exchange are able to operate from a remote location via advanced data communications. The brokers' representatives are able to trade securities via workstations that have been developed by the Stockholm Stock Exchange or via their own electronic data processing systems that are linked to SAXESS.

In addition to official trading on the Stockholm Stock Exchange, there is also trading off the Stockholm Stock Exchange during and after official trading hours. All trades of 20 round lots or less on the Stockholm Stock Exchange through banks or brokers must be made through SAXESS. Trades in excess of 20 round lots can be effected manually outside SAXESS and subsequently reported to SAXESS, provided the transaction price lies within the spread then recorded on SAXESS. Trades in excess of 250 round lots may, however, be effected off the Stockholm Stock Exchange without regard to this spread. Trades after Stockholm Stock Exchange trading hours must normally be effected at a transaction price that lies within the spread reported by SAXESS at the time of the closing. If there are no orders in SAXESS at that time, the trade may be effected at a price that otherwise reflects the market situation at that time. If the market situation changes after the closing of SAXESS, trades may be effected outside the spread, as long as the transaction price reflects the prevailing market situation at the time of the trade. Trading on the Stockholm Stock Exchange tends to involve a higher percentage of retail clients while trading off the Stockholm Stock Exchange, whether directly or through intermediaries, often involves larger Swedish institutions, banks arbitrating between the Swedish market and foreign markets, and foreign buyers and sellers purchasing shares from, or selling shares to, Swedish institutions. All trades off the Stockholm Stock Exchange must be reported to the Stockholm Stock Exchange within five minutes, although trades after official trading hours must be reported no later than 15 minutes prior to the opening on the next trading day.

The Stockholm Stock Exchange is an authorized stock exchange in accordance with the Swedish Stock Exchange and Clearing Operations Act of 1992 (the "Swedish Stock Exchange Act") and is subject to regulation by

the SFSA. The Swedish Stock Exchange Act provides for the regulation and supervision of the Swedish securities markets and market participants, and the SFSA implements this regulation and conducts this supervision.

The objective of the regulatory system governing trading on and off the Stockholm Stock Exchange is to achieve transparency and equality of treatment. All trades on the Stockholm Stock Exchange are made through SAXESS. The Stockholm Stock Exchange records information as to the banks and brokers involved, the issuer, the number of shares and the price and the time of the transaction. Each bank or broker is required to maintain records indicating trades carried out as agent or as principal. All trading information reported on the Stockholm Stock Exchange is publicly available.

The Swedish Market Abuse Penal Act of 2005 (the "Swedish Market Abuse Penal Act") provides sanctions against insider trading. The insider trading rules are enforced by the SFSA and the Market Supervision Unit of the Stockholm Stock Exchange. Criminal offences are enforced in court. The Market Supervision Unit reviews trading data for indications of unusual market activity or trading behavior.

The Market Supervision Unit also continuously examines information disseminated by listed companies. Accordingly, it reviews information such as earnings reports, acquisition and other investment plans and changes in ownership structure on a daily basis. When the Market Supervision Unit becomes aware of non-public price-sensitive information, it monitors trading in the relevant shares to ensure that the information is made public if unusual trading activity develops.

The Swedish Market Abuse Penal Act contains provisions prohibiting market manipulation. Under this act, it is unlawful to enter into an agreement for the transfer of securities on the securities market if such agreement provides that the securities will be resold at a fixed minimum price or the transferee's right to freely dispose over the purchased securities is limited, unless such agreement is publicly disclosed. In addition, market manipulation may under certain circumstances also constitute a violation of other provisions of the Swedish Market Abuse Penal Act or constitute fraud under Swedish law. Furthermore, trading data is recorded as to transactions of listed securities and such data is subject to supervisory review by the SFSA. The SFSA may cause the operating license of a bank or broker to be revoked if the bank or broker has engaged in improper conduct including market manipulation.

Registration Process

The shares in Orexo are registered in, and the register of Orexo's shareholders is kept by, the computerized book-entry share registration system administered by VPC. VPC is an automated central securities depositary and clearing organization authorized under the Swedish Financial Instruments Accounts Act of 1998 and the Swedish Stock Exchange Act, and carries out, among other things, the duties of registrar for Swedish companies listed on the Stockholm Stock Exchange. No share certificates are issued in respect of shares administered by VPC. Title to shares is ensured exclusively through registration with VPC.

In accordance with Swedish law and practice and the regulations of VPC, only one person or entity is normally registered as the holder of shares. It is possible, however, to record joint holders. Shareholdings may be entered in the register in the name of the beneficial owner or in the name of the person designated as nominee for the beneficial owner. In the latter case, a note is made in the register to the effect that the nominee is holding the shares in such capacity. There is also a separate register maintained by VPC for the recording of persons who have other interests in respect of shares, such as those of a pledgee.

The rights attaching to shares that are eligible for dividends, rights issues or bonus issues accrue to those persons whose names are recorded in the register of shareholders as per a particular record date, and the dividends are sent to a specified account as directed by the person registered with VPC, or to the address of that person. The relevant record date must, in most circumstances, be specified in the resolution declaring a dividend or resolving upon a capital increase or any similar matter in which shareholders have pre-emptive rights.

Where the registered holder is a nominee, the nominee receives, for the account of the beneficial owner, dividends and, on capital increases, newly issued shares as well as rights to participate in capital increases, such as subscription rights to new issues of shares or convertible debt instruments. Dividends are remitted in a single payment to the nominee who is responsible for the distribution of such dividends to the beneficial owner. A similar procedure is adopted for share issues. Specific authorization to act as a nominee must be granted by VPC.

Disclosure of Transactions and Ownership

Pursuant to rules concerning the disclosure of acquisition and transfer of shares issued by the Swedish Industry and Commerce Stock Exchange Committee (Sw. Näringslivets Börskommitté), any seller or purchaser of shares of a Swedish company listed on the Stockholm Stock Exchange, as well as convertible debt instruments, warrants, options and futures with such shares as underlying securities, must report its transactions and holdings to the company and to the Stockholm Stock Exchange if as a result of such acquisition or disposition, the seller or purchaser holds voting rights or shares in the company equal to, in excess of or less than all percentages evenly divisible by five, up to and including 90% of all votes or shares, including shares and votes that may result from exercise of warrants or conversion of convertible debt instruments. These changes in ownership should also be reported to an established news agency and to a nationally published newspaper in Sweden not later than 9.00 a.m. CET on the next trading day. In addition, according to the Swedish Financial Instruments Trading Act, a natural person or legal entity which acquires or disposes of shareholdings in a Swedish company that has its shares listed on the Stockholm Stock Exchange and, as a result of such acquisition or disposition, holds voting rights equal to, in excess of or less than one of the thresholds of 10%, 20%, $33^{2/3}$%, 50% or $66^{2/3}$%, is required to notify the company in writing and at the same time the Stockholm Stock Exchange within seven calendar days of the acquisition or disposition. In addition, according to the Act on Disclosure of Certain Holding of Financial Instruments 2000, certain individuals who own shares representing 10% or more of the share capital or the voting rights in a publicly traded company are required to report such ownership and any changes in such ownership to the SFSA, which keeps a public register based on the information contained in such reports.

If shares of a Swedish limited liability company are held in the name of an authorized nominee, the nominee is required to file a report with VPC with regard to any holding on behalf of a single beneficial owner in excess of 500 shares in any one company. A list containing such information must be open to public inspection. The list must reveal the names of the beneficial owner but may not reveal the name of the nominee in whose name the shares have been registered.

Mandatory Bids

The Swedish Industry and Stock Exchange Committee has issued rules concerning public offers for the acquisition of shares. Pursuant to these take-over rules, any Swedish or foreign legal entity or natural person who owns less than 30% of the total number of votes in a company listed on a stock exchange or an authorized market place in Sweden, must make a public offer for the acquisition of all the remaining shares issued by the target company (a mandatory bid), provided that the legal entity or natural person alone, or together with related parties, obtains 30% or more of the total number of votes in the company. The holding can be the result of a purchase, subscription, conversion, or any other form of acquisition of shares in the target company. In this context, a related party can be a company within the same corporate group as the buyer or any other person or entity with whom an agreement has been reached regarding the coordinated exercise of voting rights to achieve a long-term joint position as regards the management of the company. Exemptions from the provisions of the take-over rules may be granted under certain circumstances.

TAXATION

The taxation discussion set forth below is intended only as a descriptive summary and does not purport to be a complete analysis or listing of all potential tax effects relevant to the acquisition, ownership or disposal of the Company's shares. The statements of Swedish tax and U.S. federal income tax set forth below are based on the laws and regulations in force and available, as of the date of this offering circular, including the Convention between the United States and Sweden for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (the "Treaty"), and the U.S. Internal Revenue code of 1986, as amended (the "Code"), and are subject to any changes in U.S. or Swedish law, and in any double taxation convention or treaty between the United States and Sweden, occurring after that date, which changes may have retroactive effect.

Swedish Taxation

This section describes the material Swedish income and net wealth tax consequences of owning and disposing of Orexo shares for investors that are considered not to be Swedish residents for Swedish tax purposes. This section is based on the laws of Sweden all as currently in effect. This section applies only to investors that have acquired their shares in the offering as a portfolio investment and hold thereafter shares representing less than 10% of capital and votes in the Company. This section is not applicable if the shares pertain to a permanent establishment or fixed base of business in Sweden. Residents of Sweden should see the Swedish prospectus for further information.

Taxation of Distributions

A Swedish dividend withholding tax at a rate of 30% is generally imposed on dividends paid by a Swedish company, such as Orexo, to non-residents of Sweden. The same withholding tax applies to certain other payments made by a Swedish company, including payments as a result of redemption of shares and repurchase of stock through an offer directed to its shareholders. Exemption from the withholding tax or a lower tax rate may apply by virtue of a tax treaty. Under the Treaty, the withholding tax on dividends paid on portfolio investments to eligible U.S. holders shall not exceed 15%.

Under all Swedish tax treaties, except the tax treaty with Switzerland, withholding tax at the applicable treaty rate should normally be withheld by the payer of the dividends. With regard to dividends paid on shares in companies registered with VPC (such as Orexo shares), a reduced rate of dividend withholding tax under a tax treaty is generally applied at the source by VPC or, if the shares are registered with a nominee, the nominee, so long as the person entitled to the dividend is registered as a non-resident and sufficient information regarding the tax residency of the beneficial owner is available to VPC or the nominee.

In those cases where Swedish withholding tax is withheld at the rate of 30% and the person that received the dividends is entitled to a reduced rate of withholding tax under a tax treaty, a refund may be claimed from the Swedish Tax Agency before the end of the fifth calendar year after the distribution.

Taxation of Capital Gains

Generally, non-residents of Sweden are not liable for Swedish capital gains tax with respect to the sale of shares. However, under Swedish tax law, capital gains from the sale of Swedish shares (and certain other securities) by private individuals may be taxed in Sweden if they have been residents of Sweden or have lived permanently in Sweden at any time during the year of sale or the ten calendar years preceding the year of sale (absent treaty provisions to the contrary) at a rate of 30%. The time limit is not reduced under the Treaty.

Net Wealth Taxation

The shares are not subject to Swedish net wealth taxation in the hands of an investor that is not resident in Sweden.

Prospective investors should consult tax advisors regarding the Swedish and other tax consequences of acquiring, owning and disposing of Orexo shares in their particular circumstances.

U.S. Federal Income Tax Considerations

The following is a discussion of the material U.S. federal income tax consequences of purchasing, owning and disposing of the Company's shares, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to acquire such shares. This discussion does not address U.S. state, local and non-U.S. tax consequences. The discussion applies only to holders who are initial purchasers of the Company's shares pursuant to the offering and that will hold the Company's shares as capital assets for tax purposes and, except to the extent otherwise noted, it does not address special classes of holders, such as:

- certain banks or financial institutions;
- insurance companies;
- dealers and traders in securities or foreign currencies;
- persons holding shares as part of a hedge, straddle or conversion transaction;
- persons whose functional currency for U.S. federal income tax purposes is not USD;
- tax-exempt organizations;
- persons that own or are deemed to own 10% or more (by voting power or value) of the Company's shares;
- certain U.S. expatriates and former U.S. residents;
- real estate investment trusts, regulated investment companies or grantor trusts; or
- persons that received the Company's shares as compensation for the performance of services.

Moreover, this description does not address the U.S. federal estate and gift or alternative minimum tax consequences of the acquisition, ownership and disposition of the Company's shares.

This description is based on the Internal Revenue Code of 1986, as amended (the "Code"), existing, proposed and temporary U.S. Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date hereof. All of the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences described below.

You are a "U.S. Holder" if you are a beneficial owner of shares and are, for U.S. federal income tax purposes:

- a citizen or resident of the United States;
- a partnership or other entity taxable as a partnership created or organized in or under the laws of the United States or any state thereof (including the District of Columbia);
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if such trust validly elects to be treated as a United States person for U.S. federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more United States persons have the authority to control all of the substantial decisions of such trust. A "Non-U.S. Holder" is a beneficial owner of the Company's shares that is not a U.S. Holder.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds the Company's shares, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax advisor as to its tax consequences.

Prospective investors should consult their own tax advisers concerning the U.S. federal, state, local and foreign tax consequences of purchasing, owning and disposing of the Company's shares in their particular circumstances.

Internal Revenue Service Circular 230 Disclousure

Pursuant to Internal Revenue Service Circular 230, Orexo hereby inform you that the description set forth herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the Code. Such description was written to support the marketing of the shares. This description is limited to the U.S. federal tax issues described herein. It is possible that additional issues may exist that could affect the U.S. federal tax treatment of an investment in the shares, or the matter that is the subject of the description noted herein, and this description does not consider or provide any conclusions with respect to any such additional issues. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Taxation of Distributions

Subject to the discussion below regarding "Passive Foreign Investment Company Rules", distributions paid on shares, other than certain pro rata distributions of ordinary shares, will be treated as a dividend to the extent such distributions are paid out of the Company's current or accumulated earnings and profits (as determined under U.S. federal income tax principles). The amount of this dividend will include any amounts withheld in respect of Swedish taxes. Subject to the discussion below under "Passive Foreign Investment Company Rules," noncorporate U.S. Holders generally may be taxed on such dividends at the lower rates applicable to long-term capital gains for taxable years beginning on or before December 31, 2008. However, a U.S. Holder's eligibility for such preferential rate would be subject to certain holding period requirements and the non-existence of certain risk reduction transactions with respect to the shares. The amount of the dividend will not be eligible for the dividends received deduction generally allowed to U.S. corporations. Subject to the discussion below under "Passive Foreign Investment Company Rules", to the extent, if any, that the amount of any distribution by the Company exceeds the Company's current and accumulated earnings and profits as determined under U.S. federal income tax principles, it will be treated first as a tax-free return of the U.S. Holder's adjusted tax basis in the Company's shares and thereafter as capital gain. The Company does not maintain calculations of its earnings and profits under U.S. federal income tax principles.

Dividends paid in SEK will be included in income in a USD amount calculated by reference to the exchange rate in effect on the date of the U.S. Holder's receipt of the dividend, regardless of whether the payment is in fact converted into USD. If the dividend is converted into USD on the date of receipt, the U.S. Holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend. The U.S. Holder may have foreign currency gain or loss if it does not convert the amount of such dividend into USD on the date of its receipt. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

Dividends received by a U.S. Holder with respect to the Company's shares will be treated as foreign source income, which may be relevant in calculating such holder's foreign tax credit limitation. Swedish taxes withheld from cash dividends on shares at the rate provided for in the Treaty may be deducted from taxable income or credited against a U.S. Holder's U.S. federal income tax liability, subject to applicable restrictions and limitations that may vary depending upon the holder's circumstances. Swedish taxes withheld in excess of the Treaty rate for which a refund is available are not eligible for credit against a holder's U.S. federal income tax liability. See the section entitled "Swedish Taxation – Taxation of Distributions" for a discussion of how a U.S. Holder may obtain a reduced rate of withholding at source. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, such dividends generally will constitute "passive income" or, for certain U.S. Holders,

"financial services income" for foreign tax credit purposes. U.S. Holders should note that the "financial services income" category with respect to taxable years beginning after December 31, 2006, will be eliminated and the foreign tax credit limitation categories will be limited to "passive category income" and "general category income." Prospective investors should consult their own tax advisers to determine whether they are subject to any special rules that may limit their ability to make effective use of foreign tax credits.

Subject to the discussion below under "Backup Withholding Tax and Information Reporting Requirements", a Non-U.S. Holder of the Company's shares generally will not be subject to U.S. federal income or withholding tax on dividends received on the Company's shares, unless such income is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States.

Sale and Other Disposition of Shares

Subject to the discussion below regarding "Passive Foreign Investment Company Rules", a U.S. Holder generally will recognize capital gain or loss for U.S. federal income tax purposes on a sale or other disposition of shares in the Company equal to the difference between the amount realized on such sale or exchange and the U.S. Holder's adjusted tax basis in the Company's shares. In the case of a noncorporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income (other than certain dividends) if such U.S. Holder's holding period for such shares exceeds one year (i.e., long-term capital gains). Gain or loss, if any, recognized by a U.S. Holder generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. The deductibility of capital losses is subject to limitations.

The initial tax basis of the Company's shares to a U.S. Holder will be the USD value of the SEK denominated purchase price determined on the date of purchase. If the Company's shares are treated as traded on an "established securities market", a cash basis U.S. Holder, or, if it elects, an accrual basis U.S. Holder, will determine the USD value of the cost of such shares by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. The conversion of USD to SEK and the immediate use of that currency to purchase the Company's shares generally will not result in taxable gain or loss for a U.S. Holder.

With respect to the sale or exchange of the Company's shares, the amount realized generally will be the USD value of the payment received determined on (1) the date of receipt of payment in the case of a cash basis U.S. Holder and (2) the date of disposition in the case of an accrual basis U.S. Holder. If the Company's shares are treated as traded on an "established securities market," a cash basis taxpayer, or, if it elects, an accrual basis taxpayer, will determine the USD value of the amount realized by translating the amount received at the spot rate of exchange on the settlement date of the sale.

Subject to the discussion below under "Backup Withholding Tax and Information Reporting Requirements", a Non-U.S. Holder of the Company's shares generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale or exchange of such shares unless (1) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States or (2) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale or exchange and certain other conditions are met.

As described under "Taxation – Swedish Taxation – Taxation of Capital Gains", under current law a U.S. Holder may be subject to Swedish tax upon the disposition of the Company's shares under certain circumstances. The U.S. foreign tax credit with respect to such Swedish tax may be limited because the gain may be treated as U.S. sourced. However, if you are a resident of the United States for purposes of the Treaty who is eligible for the benefits of the Treaty, you may be exempt from such Swedish tax.

Passive Foreign Investment Company Rules

A Non-U.S. corporation will be classified as a "passive foreign investment company", or a PFIC, for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules, either (1) at least 75% of its gross income is "passive income" or (2) at least 50% of the average value of its gross assets is attributable to assets that produce "passive income" or is held for the production of passive income. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions.

The Company may have been a PFIC in prior years. The Company believes that, based on the method for determining PFIC status that is used for publicly traded companies, it should not be treated as a PFIC for 2005. However, such determination could change in the future if the market value of the Company's shares were to change. The Company's status in future years will also depend on its assets and activities in those years. The Company has no reason to believe that its assets or activities will change in a manner that would cause it to be classified as a PFIC, but there can be no assurance that the Company will not be considered a PFIC for any taxable year. If the Company were a PFIC, a U.S. Holder of the Company's shares generally would be subject to imputed interest charges and other disadvantageous tax treatment (including the denial of the taxation of such dividends at the lower rates applicable to long-term capital gains, as discussed above under "Taxation of Distributions") with respect to any gain from the sale or exchange of, and certain distributions with respect to, the Company's shares.

If the Company were a PFIC, a U.S. Holder of the Company's shares could make a variety of elections that may alleviate certain of the tax consequences referred to above, and one of these elections may be made retroactively. However, it is expected that the conditions necessary for making certain of such elections will not apply in the case of the Company's shares. U.S. Holders should consult their own tax advisors regarding the tax consequences that would arise if the Company were treated as a PFIC.

Information Reporting and Backup Withholding

United States backup withholding tax and information reporting requirements generally apply to certain payments to certain noncorporate holders of stock. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, the Company's shares made within the United States or by a U.S. payor or U.S. middleman to a holder of the Company's shares, other than an exempt recipient, including a corporation, a payee that is not a United States person that provides an appropriate certification and certain other persons. A payor will be required to withhold backup withholding tax from any payments of dividends on, or the proceeds from the sale or redemption of, the Company's shares within the United States to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. The backup withholding tax rate is 28% through 2010.

In the case of such payments made within the United States to a foreign simple trust, a foreign grantor trust or a foreign partnership, other than payments to a foreign simple trust, a foreign grantor trust or a foreign partnership that qualifies as a "withholding foreign trust" or a "withholding foreign partnership" within the meaning of the applicable U.S. Treasury Regulations and payments to a foreign simple trust, a foreign grantor trust or a foreign partnership that are effectively connected with the conduct of a trade or business in the United States, the beneficiaries of the foreign simple trust, the persons treated as the owners of the foreign grantor trust or the partners of the foreign partnership, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from backup withholding tax and information reporting requirements. Moreover, a payor may rely on a certification provided by a payee that is not a United States person only if such payor does not have actual knowledge or a reason to know that any information or certification stated in such certificate is incorrect.

The above description is not intended to constitute a complete analysis of all tax consequences relating to acquisition, ownership and disposition of the Company's shares. Prospective purchasers should consult their tax advisors concerning the tax consequences of their particular situations.

PLAN OF DISTRIBUTION

Pursuant to the terms of an agreement regarding the placing of shares entered into on November 8, 2005 (the "Placing Agreement") by and among Orexo, the managers, the Principal Shareholders and the Founders, Orexo will issue 3,700,000 Orexo shares to the purchasers procured by the managers. The managers will, severally and not jointly, undertake to procure purchasers for, or, failing which, themselves to purchase, the shares in the offering. The managers' commitments are, among other things, subject to certain representations and warranties to be given by Orexo.

In addition, the Founders have granted the managers an over-allotment option that can be exercised within 30 days from the first day of listing of Orexo's shares on the Stockholm Stock Exchange, to purchase, or procure purchasers for, up to 555,000 shares in the Company. The option may only be exercised to cover any over-allotments in connection with the offering.

In the Placing Agreement, Orexo will, subject to certain exceptions, among other things, with respect to the managers commit to refrain from resolving or proposing to the general meeting of shareholders to increase Orexo's share capital through an issue of shares or other securities that entitle its holders to subscribe for or exchange into shares in Orexo, for a period of 180 days from the first day of listing of Orexo's shares on the Stockholm Stock Exchange, without the managers' prior written consent.

The Principal Shareholders will not, for a period of 180 days from the first day of listing of Orexo's shares on the Stockholm Stock Exchange, and the Founders, Orexo's directors and officers will not, for a period of 360 days from the first day of listing of Orexo's shares on the Stockholm Stock Exchange, without the prior written consent of the managers, whether directly or indirectly, offer, sell or agree to sell, pledge or in any other way grant or transfer shares in Orexo (or securities convertible into or exchangeable or exercisable for Orexo's shares).

Orexo will commit to, to the extent permitted by Swedish law and subject to certain conditions, indemnify and hold the managers harmless from certain claims, including claims based on applicable securities laws. The Company will further commit to reimburse the managers for certain costs incurred by the managers in connection with the offering.

The offering may be terminated by the managers prior to the time at which the shares have been delivered upon the occurrence of certain events, such as material adverse changes to the financial conditions or the business of the Company, acts of war or similar, changes in political or financial environmental factors, changes in legislation, decisions by public authorities or suspension of trading of the Company's shares or generally.

In connection with the offering, Carnegie, on behalf of the managers, may effect transactions on the Stockholm Stock Exchange which stabilize the market price of Orexo's shares or maintains it at a level which would otherwise not prevail on the market. Such initiated measures may be interrupted at any time without notice and may be effected as from the first day of listing of Orexo's shares on the Stockholm Stock Exchange and for a period of 30 days thereafter. The managers, however, have no obligations to initiate stabilization measures.

TRANSFER RESTRICTIONS

The following restrictions will apply to the shares in Orexo and investors are therefore advised to consult legal counsel prior to making any offer, resale, pledge or transfer of the shares.

The shares have not been and will not be registered under the U.S. Securities Act and may not, unless so registered, be offered or sold within the United States (as defined in Regulation S ("Regulation S") under the U.S. Securities Act), except pursuant to an exemption from or in a transaction not subject to the registration requirements of the U.S. Securities Act and applicable state securities laws. Prospective purchasers are hereby notified that sellers of shares may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A or another exemption from registration.

Each purchaser of the shares within the United States pursuant to Rule 144A ("Rule 144A") under the U.S. Securities Act or another exemption from registration will be deemed to have represented and agreed that it has received a copy of this offering circular and that:

(i) it acknowledges that the shares have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer;

(ii) it (a) is a QIB, as defined in Rule 144A, (b) is aware, and each beneficial owner of such shares has been advised, that the sale to it is being made in reliance on Rule 144A or another exemption from registration and (c) is acquiring such shares for its own account or for the account of a QIB;

(iii) if in the future it decides to offer, resell, pledge or otherwise transfer such shares, such shares may be offered, sold, pledged or otherwise transferred only (a) to a person whom the beneficial owner and/or any person acting on its behalf reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act, (c) in accordance with Rule 144 under the U.S. Securities Act (if available), or (d) pursuant to an effective registration statement under the U.S. Securities Act, in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction;

(iv) it agrees that it shall not deposit or cause to deposit the shares into any unrestricted depositary receipt facility established or maintained by a depositary bank, other than a restricted depositary receipt facility, unless or until such time as such shares are no longer "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act (or any successor provision or rule);

(v) it will give any subsequent purchaser of such shares notice of any restrictions of the transfer thereof; and

(vi) it acknowledges that Orexo and the managers will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agrees that if any of the acknowledgements, representations or warranties deemed to have been made by it by its purchase of shares are no longer accurate, it shall promptly notify Orexo and the managers; if it is acquiring shares as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Each purchaser of shares outside the United States pursuant to Regulation S under the U.S. Securities Act, by accepting delivery of this offering circular and the shares, will be deemed to have represented and agreed that:

(i) it acknowledges (or if it is a broker-dealer acting on behalf of a customer, its customer has confirmed to it that such customer acknowledges) that such shares have not been and will not be registered under the U.S. Securities Act.

(ii) it certifies that either (a) it is, or at the time the shares are purchased will be, the beneficial owner of the shares and it is located outside the United States (within the meaning of Regulation S) or (b) it is a broker-dealer acting on behalf of its customer and its customer has confirmed to it that (i) such customer is, or at the time the shares are purchased will be, the beneficial owner of the shares, and (ii) such customer is located outside the United States (within the meaning of Regulation S);

(iii) it acknowledges that Orexo, the managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that, if any of such acknowledgments, representations or agreements deemed to have been made by virtue of its purchase of the shares are no longer accurate, it will promptly notify Orexo, and if it is acquiring any shares as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

Any resale or other transfer or attempted resale or other transfer, made other than in compliance with above-stated restrictions shall not be recognized by Orexo.

LEGAL MATTERS, INDEPENDENT ACCOUNTANTS AND ADDITIONAL INFORMATION

Legal Matters

The validity of the shares and certain matters as to Swedish law will be passed upon for Orexo by Advokatfirman Vinge KB, Stockholm, Sweden, as special Swedish counsel to Orexo, and for the managers by White & Case Advokat AB, Stockholm, Sweden, as special Swedish counsel to the managers. Certain matters will be passed upon for the managers by White & Case LLP, as special U.S. counsel to the managers.

Independent Accountants

The consolidated financial statements of Orexo as of December 31, 2002 and 2003, and for the eight months ended December 31, 2002 and the year ended December 31, 2003, included in this offering circular, have been audited by Ulf Hedefalk of Öhrlings PricewaterhouseCoopers AB, independent accountants, as stated in the report appearing herein. The consolidated financial statements and the Special Purpose Preliminary IFRS Financial Information of Orexo as of December 31, 2004, and for the year then ended, included in this offering circular, have been audited by Öhrlings PricewaterhouseCoopers AB, independent accountants, as stated in the report appearing herein.

Additional Information

Orexo has agreed that for so long as any of the shares remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act, if at any time Orexo is neither subject to Section 13 or 15(d) of the U.S. Exchange Act nor exempt from reporting pursuant to Rule 12g3 2(b) of the U.S. Exchange Act, it will, upon request, furnish to any holder or beneficial owner of the shares, the information required to be delivered pursuant to Rule 144A(d)(4) under the U.S. Securities Act. Any such request should be directed to Orexo at Box 303, SE-751 05, Uppsala, Sweden – attention: Malena Sténson (telephone number: +46-(0)18 780 88 00).

GLOSSARY

Term	Explanation
Agonist	A pharmacologically active compound that causes a biological effect by mimicking the regulatory effects of the endogenous signaling compound.
Analgesia	A deadening or absence of the sense of pain without loss of consciousness.
Antagonist	A pharmacologically active compound that binds to a specific receptor and thereby inhibits the action of the endogenous signaling compound.
Anti-diuretic peptides	Peptides that mimic the effects of the anti diuretic hormone, and decrease the production of urine by the kidneys.
Benign prostate hyperplasia	Benign increase in prostate volume.
Bioavailability	The fraction of an administered dose that is recovered in plasma in unchanged form.
Desmopressin	Refers to a synthetic analogue of the endogenous peptide hormone Arg-vasopressin.
Drug delivery	The process through which a pharmaceutical receives the composition and form that enables the active compound to function in an optimal way.
Drug discovery	The research and development of new pharmaceutical molecules.
Dyspepsia	Term for symptoms originating from the upper gastrointestinal tract. The symptoms could come from a number of conditions, e.g. gastric ulcer, gastric cancer, heartburn or dysfunction of the intestines.
Endoscopy	Procedure by which the interior of the human body can be inspected (i.e. through fiber-optic or video technology)
Faecal	Waste products from the intestinal passage.
Fentanyl	An opioid with the similar effects on living organisms as morphine but with less hypnotic activity. Used mainly within anesthesia and analgesia.
First pass metabolism	The intestinal and hepatic degradation or alteration of a pharmaceutical administered orally, after absorption, removing some of the active compound before it enters the general blood circulation.
Gastro Esophageal Reflux Disease (GERD)	Severe heartburn caused by stomach acid refluxing, or splashing, through the hiatus up into the gullet.
Gastroenterology	The diagnosis and treatment of diseases and disorders affecting the stomach, intestines and associated organs.
Gastroduodenal	Refers to the stomach and the proximal small intestine.
Half-life	The time required for a pharmaceutical concentration to decrease by 50%.
Hangover	Unwanted after-effects from the use of pharmaceuticals such as grogginess and sleepiness.
Helicobacter pylori	A bacterium that has been implicated in the development of, inter alia, gastric ulcers.
Histamine	A physiologically active compound found in plant and animal tissue that is released from cells in the immune system as part of an allergic reaction.
In vivo	In living organisms.

In vitro	In the laboratory
Mucoadhesive	Something tending to adhere to the mucosa.
Mucosa	A membrane lining all body passages.
Nociceptive pain	Nociceptors are the nerves which sense and respond to parts of the body which suffer from damage. When activated, nociceptors transmit pain signals to the brain.
Oncology	The science of cancer diseases.
On demand	This means that the medicine can be administered when needed.
Orthopaedic manipulations	Manipulations performed by a physician in order to correct the position of bone fractures.
Pathogen	An agent that causes disease, especially a living microorganism such as bacterium or fungus.
Pharmaceutics	The scientific area which encompasses drug delivery technologies.
Pharmacokinetics	The process, by which a pharmaceutical is absorbed, distributed, metabolized and eliminated by the body.
Pharmacological properties	The characteristics or properties of a pharmaceutical, especially those that make it medically effective.
Peptides	A sequence of amino-acids.
Polysomnographic	Assessment of sleep patterns by means of electrophysiological measurements.
Polyuria	Excessive urine production.
Preclinical programs	In vitro and in vivo experiments that are conducted in order to determine whether a candidate pharmaceutical has the desired pharmacokinetic properties. In addition, the candidate pharmaceutical's safety profile is studied by conducting toxicological studies. Finally, clinical development plans are developed for candidate pharmaceuticals that show the strongest potential.
Product candidate	A pharmaceutical product under development.
Pyloric	Lower part of the orifice of the stomach.
Serology	Diagnostic procedure based on the determination/quantification of specific antibodies in the blood.
Sublingual	Situated beneath the tongue.
Titration	Process of determining the proper concentration of a dissolved substance needed to produce a desired effect.
Urea	A water-soluble compound that is the major nitrogenous end product of protein metabolism and is the chief nitrogenous component of the urine in mammals and other organisms. Urea is also referred to as carbamide.
Urology	The science of diseases in the urogenital tract.

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of Orexo AB (publ)

In our opinion, the accompanying parent company and consolidated balance sheet and the related parent company and consolidated statements of operations, statement of cash flow and statement of changes in shareholders' equity present fairly, in all material respects, the financial position of Orexo AB (publ) and its subsidiaries at December 31, 2002, 2003 and 2004 and the results of their operations and their cash flows for the eight months ended December 31, 2002, and for the years ended December 31, 2003 and 2004, in conformity with generally accepted accounting principles in Sweden. These financial statements are the responsibility of the Company's board of directors. Our responsibility is to express an opinion on these financial statements and the financial statements based on our audit. We conducted our audits of these statements in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Uppsala, Sweden October 19, 2005

Öhrlings PricewaterhouseCoopers AB

Leonard Daun
Authorized Public Accountant

CONSOLIDATED STATEMENT OF OPERATIONS

(SEK thousands)	Notes	For the eight months ended December 31, 2002[1]	For the year ended December 31 2003[1]	2004[1]
Net revenues	2,3	2,961	21,360	86,715
Cost of goods sold		(1,662)	(2,518)	(1,930)
Gross profit		**1,299**	**18,842**	**84,785**
Selling costs	8	(874)	(1,823)	(1,803)
General and administrative costs	5,6,7,8	(6,708)	(12,871)	(24,224)
Research and development costs	5,8	(12,503)	(30,319)	(64,011)
Other operating revenue	4	57	299	672
Other operating costs	4	(199)	(546)	(368)
Operating loss		**(18,928)**	**(26,418)**	**(4,949)**
Earnings from net financial items				
Write-off of promissory note		(2,404)	–	–
Interest income and similar items		537	633	695
Interest expenses and similar items		(8)	(160)	(79)
Other financial items	6,10	–	–	(10,455)
Loss after financial items		**(20,803)**	**(25,945)**	**(14,788)**
Tax on the year's income	12	–	(1,648)	(1,156)
Net loss		**(20,803)**	**(27,593)**	**(15,944)**
Loss per share, SEK[2]	11	(831.09)	(981.36)	(450.89)
Loss per share after full dilution, SEK[3]	11	(831.09)	(981.36)	(450.89)
Number of shares at end of period	11	25,036	34,278	36,952
Average number of shares outstanding	11	25,031	28,117	35,361

1) Financial statements for these periods have been prepared based on Swedish GAAP.

2) Profit per share is computed as the average number of shares outstanding during the period.

3) The number of shares after dilution amounted to 37,906 at December 31, 2004 (29,330 at December 31, 2003 and 26,169 at December 31, 2002).

CONSOLIDATED BALANCE SHEETS

(SEK thousands)	Notes	As at December 31, 2002[1)]	2003[1)]	2004[1)]
ASSETS				
Fixed assets				
Intangible fixed assets				
Software	14	1,160	–	–
Patent and intellectual property rights	15	8,543	6,520	4,529
Goodwill	16	–	13,238	–
Total intangible fixed assets		**9,703**	**19,758**	**4,529**
Tangible fixed assets				
Equipment, machinery and computers	17	816	1,984	2,277
Financial assets				
Other long-term receivables	19	2,405	2,405	2,405
Total financial assets		2,405	2,405	2,405
Total fixed assets		**12,924**	**24,147**	**9,211**
Current assets				
Inventories etc				
Raw materials and consumables		1,755	964	1,311
Finished products and consumables		282	393	108
Current receivables				
Accounts receivables		809	1,067	1,386
Other receivables	20	828	969	4,413
Prepaid expenses and accrued income	21	1,801	2,130	5,348
		3,438	4,166	11,147
Cash and bank balances	22	14,849	15,482	84,240
Total current assets		20,324	21,005	96,806
Total assets		**33,248**	**45,152**	**106,017**

1) Financial statements for these periods have been prepared based Swedish GAAP.

(SEK thousands)	Notes	As at December 31, 2002[1)]	2003[1)]	2004[1)]
EQUITY AND LIABILITIES				
Shareholders' equity				
Restricted equity				
Share capital	23	2,503	3,428	3,695
Unregistered new share issue		1	–	–
Restricted reserves		43,831	60,063	97,233
		46,335	63,491	100,928
Accumulated deficit				
Loss carried forward		(15)	(16)	(5,548)
Loss for the year		(20,803)	(27,593)	(15,944)
Total accumulated deficit		(20,818)	(27,609)	(21,492)
Total shareholders' equity		**25,517**	**35,882**	**79,436**
Current liabilities				
Accounts payable, trade		1,551	1,993	10,067
Other liabilities	24	4,248	2,804	1,891
Accrued expenses and prepaid income	25	1,932	4,473	14,623
Total current liabilities		7,731	9,270	26,581
Total equity and liabilities		**33,248**	**45,152**	**106,017**
Assets pledged and contingent liabilities:				
Assets pledged for own account	26	2,500	2,500	2,500
Contingent liabilities	27	50	1,550	1,550

1) Financial statements for these periods have been prepared based on Swedish GAAP.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY[1)]

(SEK thousands)	Share capital	Restricted reserves	Loss carried forward	Total share-holders' equity
Opening Balance at May 1, 2002	2,503	78,810	(35,994)	45,319
Loss for the year			(20,803)	(20,803)
Transfer from restricted to unrestricted shareholders' equity		(35,979)	35,979	–
New share issue	1	1,000		1,001
Balance at December 31, 2002	2,504	43,831	(20,818)	25,517
Loss for the year			(27,593)	(27,593)
Transfer from restricted to unrestricted shareholders' equity		(20,802)	20,802	–
New share issue	924	37,034		37,958
Balance at December 31, 2003	3,428	60,063	(27,609)	35,882
Loss for the year			(15,944)	(15,944)
Transfer from restricted to unrestricted shareholders' equity		(22,061)	22,061	–
New share issue	267	59,231		59,498
Balance at December 31, 2004	**3,695**	**97,233**	**(21,492)**	**79,436**

1) Financial statements for these periods have been prepared based on Swedish GAAP.

CONSOLIDATED CASH FLOW STATEMENTS

(SEK thousands)	Notes	For the eight months ended December 31, 2002[1)]	For the year ended December 31 2003[1)]	2004[1)]
Operating activities				
Loss before financial items		(18,928)	(26,418)	(4,949)
Write-down promissory note receivables		(2,404)	–	–
Interest income		(8)	(160)	695
Interest expenses		537	633	(79)
Other financial costs		–	–	(10,455)
Taxes paid		–	(1,648)	(1,156)
Adjustment for items not affecting cash flow	28	4,470	5,378	18,042
Cash flow from operating activities before changes in working capital		**(16,333)**	**(22,215)**	**2,098**
Cash flow from changes in working capital:				
Change in accounts receivables		103	(258)	(319)
Change in other current receivables		(197)	148	(2,629)
Change in inventories		(646)	680	(62)
Change in current liabilities		(168)	(472)	16,818
Cash flow from operating activities		**(17,241)**	**(22,117)**	**15,906**
Investment activities				
Acquisition of machinery and equipment		(429)	(433)	(1,120)
Liquid funds from the acquisition of subsidiaries		–	23,183	–
Total cash flow after investment activities		**(17,670)**	**633**	**14,786**
Financing activities				
Proceeds from new share issues		41	–	53,972
Total cash flow after financing activities		**(17,629)**	**633**	**68,758**
Cash flow for the period				
Liquid funds, opening balance		32,478	14,849	15,482
Change in liquid funds		(17,629)	633	68,758
Liquid funds, closing balance	22	**14,849**	**15,482**	**84,240**

1) Financial statements for these periods have been prepared based on Swedish GAAP.

UNCONSOLIDATED STATMENTS OF OPERATIONS

(SEK thousands)	Notes	For the eight months ended December 31, 2002[1)]	For the year ended December 31 2003[1)]	2004[1)]
Net revenues	2,3	2,961	21,360	86,715
Cost of goods sold		(1,662)	(2,518)	(1,930)
Gross profit		**1,299**	**18,842**	**84,785**
Selling costs	8	(874)	(1,823)	(1,803)
General and administrative costs	5,6,7,8	(6,707)	(12,870)	(24,433)
Research and development costs	5,8	(12,503)	(24,887)	(49,172)
Other operating revenue	4	57	299	671
Other operating costs	4	(199)	(526)	(368)
Operating loss		**(18,927)**	**(20,965)**	**9,680**
Earnings from net financial items				
Write-down of shares in subsidiaries	9	–	–	(20,112)
Write-off of promissory note		(2,404)	–	–
Interest income and similar items		537	442	651
Interest expenses and similar items		(8)	(158)	(79)
Other financial items	6,10	–	–	(10,455)
Loss after financial items		**(20,802)**	**(20,681)**	**(20,315)**
Tax on the year's income	12	–	(1,648)	(1,156)
Net loss		**(20,802)**	**(22,329)**	**(21,471)**

1) Financial statements for these periods have been prepared based on Swedish GAAP.

UNCONSOLIDATED BALANCE SHEETS

(SEK thousands)	Notes	As at December 31, 2002[1)]	2003[1)]	2004[1)]
ASSETS				
Fixed assets				
Intangible fixed assets				
Software	14	1,160	–	–
Patent and intellectual property rights	15	8,543	6,520	4,529
Total intangible fixed assets		**9,703**	**6,520**	**4,529**
Tangible fixed assets				
Equipment, machinery and computers	17	816	819	1,491
Financial assets				
Shares in subsidiaries	18	100	38,272	867
Other long-term receivables	19	2,405	2,405	2,405
		2,505	40,677	3,272
Total fixed assets		**13,024**	**48,016**	**9,292**
Current assets				
Inventories etc.				
Raw materials and consumables		1,755	964	1,311
Finished products inventory		282	393	108
Current receivables				
Accounts receivables		809	1,067	1,386
Other receivables	20	828	895	4,367
Prepaid expenses and accrued income	21	1,801	2,051	5,348
		3,438	4,013	11,101
Cash and bank balances	22	14,762	2,485	83,817
Total current assets		20,237	7,855	96,337
Total assets		**33,261**	**55,871**	**105,629**

1) Financial statements for these periods have been prepared based on Swedish GAAP.

(SEK thousands)	Notes	As at December 31, 2002[1)]	2003[1)]	2004[1)]
EQUITY AND LIABILITIES				
Shareholders' equity				
Restricted equity				
Share capital	23	2,503	3,428	3,695
Unregistered new share issue		1	–	–
Share premium reserve		43,627	59,859	97,028
Statutory reserve		204	204	204
		46,335	63,491	100,927
Accumulated deficit				
Loss carried forward		–	–	–
Loss for the year		(20,802)	(22,329)	(21,471)
Total accumulated deficit		(20,802)	(22,329)	(21,471)
Total shareholders' equity		**25,533**	**41,162**	**79,456**
Current liabilities				
Accounts payable, trade		1,551	1,416	10,042
Liabilities to group companies		–	7,500	–
Other liabilities	24	4,248	2,748	1,522
Accrued expenses and prepaid income	25	1,929	3,045	14,609
Total current liabilities		7,728	14,709	26,173
Total equity and liabilities		**33,261**	**55,871**	**105,629**
Assets pledged and contingent liabilities				
Assets pledged	26	2,500	2,500	2,500
Contingent liabilities	27	50	50	50

1) Financial statements for these periods have been prepared based on Swedish GAAP.

UNCONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY[1)]

(SEK thousands)	Share capital	Restricted reserves	Statutory reserves	Loss carried forward	Total share-holders' equity
Opening Balance at May 1, 2002	2,503	78,606	204	(35,979)	45,334
Loss for the year				(20,802)	(20,802)
Transfer from restricted to unrestricted shareholders' equity		(35,979)		35,979	–
New share issue	1	1,000			1,001
Balance at December 31, 2002	2,504	43,627	204	(20,802)	25,533
Loss for the year				(22,329)	(22,329)
Transfer from restricted to unrestricted shareholders' equity		(20,802)		20,802	–
New share issue	924	37,034			37,958
Balance at December 31, 2003	3,428	59,859	204	(22,329)	41,162
Loss for the year				(21,471)	(21,471)
Transfer from restricted to unrestricted shareholders' equity		(22,329)		22,329	–
New share issue	267	59,498			59,765
Balance at December 31, 2004	**3,695**	**97,028**	**204**	**(21,471)**	**79,456**

1) Financial statements for these periods have been prepared based on Swedish GAAP.

UNCONSOLIDATED CASH FLOW STATEMENTS

(SEK thousands)	Notes	For the eight months ended December 31, 2002[1)]	For the year ended December 31 2003[1)]	2004[1)]
Operating activities				
Loss before financial items		(18,927)	(20,965)	9,680
Write-down of shares in subsidiaries		–	–	(20,112)
Write-down of promissory note receivables		(2,404)	–	–
Interest income		537	442	651
Interest expenses		(8)	(158)	(79)
Other financial costs		–	–	(10,455)
Funds provided by CePeP AB		–	–	17,293
Taxes paid		–	(1,648)	(1,156)
Adjustment for items not affecting cash flow	28	4,470	4,286	24,749
Cash flow from operating activities before changes in working capital		**(16,332)**	**(18,043)**	**20,571**
Cash flow from changes in working capital				
Change in accounts receivables		103	(258)	(319)
Change in other current receivables		(198)	(824)	(2,735)
Change in inventories		(646)	680	(62)
Change in current liabilities		(168)	6,814	10,970
Cash flow from operating activities		**(17,241)**	**(11,631)**	**28,425**
Investment activities				
Investment in machinery and equipment		(429)	(433)	(1,120)
Investment in subsidiaries		–	(213)	–
Total cash flow after investment activities		**(17,670)**	**(12,277)**	**27,305**
Financing activities				
Proceeds from new share issues		41	–	54,027
Total cash flow after financing activities		**(17,629)**	**(12,277)**	**81,332**
Cash flow for the period				
Liquid funds, opening balance		32,391	14,762	2,485
Change in liquid funds		(17,629)	(12,277)	81,332
Liquid funds, closing balance	22	**14,762**	**2,485**	**83,817**

1) Financial statements for these periods have been prepared based on Swedish GAAP.

(Based on recommendations and statments of the Swedish Financial Accounting Standards Council. All amounts are in SEK thousands, unless otherwise stated.)

Note 1 Accounting and Valuation Principles

Orexo AB's (publ) annual report 2004 was prepared in accordance with the Swedish Annual Accounts Act and the recommendations and statements of the Swedish Financial Accounting Standards Council.

With the exception of what is stated below, the accounting principles remain unchanged compared with those applied in the previous years.

Accounting Policies Adopted In 2003

As of 2003, Orexo implemented the following new accounting standards issued by the Swedish Financial Accounting Standards Council:

RR 22 – Presentation of financial statements. This standard prescribes the requirements for presentation of general purpose financial statements and is designed to ensure comparability both with the Company's own financial statements of previous periods and with the financial statements of other companies.

RR 24 – Investment property. This standard prescribes the accounting treatment for investment property and related disclosure requirements. RR 24 is not applicable to Orexo's operations.

RR 25 – Segment reporting. This standard establishes principles for reporting financial information by segment to enhance understanding of a company's products and services and its geographical areas of operations.

RR 26 – Events after the balance sheet date. This standard prescribes adjustments that a company should make to its financial statements for events after the balance sheet date and the disclosures that a company should provide with respect to the date the statements were authorized for issue and events after the balance sheet date. The implementation of RR 26 has not had a material effect on the business, results of operations, or financial position of Orexo.

RR 27 – Financial instruments. Disclosure and presentation. The objective of this standard is to enhance understanding of the significance of on-balance-sheet and off-balance-sheet financial instruments to a company's business, results of operations, and financial position. The standard prescribes certain requirements for presentation of on-balance-sheet (recognized) and off-balance-sheet (unrecognized) financial instruments. The implementation of RR 27 has not had a material impact on the business, results of operations or financial position of Orexo.

RR 28 – Accounting for Government Grants. This standard applies to financial reporting and disclosure of government grants and other forms of government assistance. The implementation of RR 28 has not had a material impact on the business, results of operations or financial position of Orexo.

Accounting Policies Adopted In 2004

As of 2004, Orexo implemented the following new accounting standards issued by the Swedish Financial Accounting Standards Council:

RR 29 – Employee benefits. This standard describes the required accounting treatment and disclosure of employee benefits matters. The standard requires a company to recognize (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future and (b) an expense when the company derives the economic benefit arising from service provided by an employee in exchange for employee benefits. The implementation of RR 29 has not had a material impact on the business, results of operations or financial position of Orexo.

To better correspond with the presentations of other biotechnology companies listed on the Stockholm Stock Exchange, Orexo has changed its format from a statement of operations classified by type of cost to a statement of operations classified by function.

In its 2003 annual report, Orexo reported revenues relating to milestone payments from Kyowa Hakko as net after non-deductible tax at source. Effective 2004, such compensation is reported as gross, which means that the tax at source is reported as paid tax. With this in mind, classification in the statement of operations for 2003 has been revised so that net sales increased from 19,712 to 21,360 and tax paid increased from 0 to 1,648 for both the group and the parent company. This change does not have any effect on Orexo's net income or financial position as of December 31, 2003.

Consolidated financial statements

The consolidated financial statements include subsidiaries in which the parent company directly or indirectly holds more than 50% of the voting rights. The consolidated financial statements have been prepared in accordance with the purchase method, which means that shareholders' equity in subsidiaries on the acquisition date is determined as the difference between the fair value of assets and liabilities, and is eliminated in its entirety. The group's shareholders' equity includes only the portion of shareholders' equity of subsidiaries arising after the acquisition date. Companies acquired during the year are included in the consolidated financial statements in the amounts pertaining to the period after the acquisition.

Internal profits in the group are eliminated in their entirety.

Income

Product sales are reported when the products are delivered to the customer in accordance with the terms and conditions of sale. Net sales are reported after VAT, discounts and exchange rate differences in case of sales in foreign currency. License income is reported in accordance with the financial implications of the particular agreement.

Receivables and Liabilities

Receivables and liabilities are reported in the amounts expected to be received.

Foreign Currencies

Receivables and liabilities in foreign currency are valued at the closing rate. Transactions in foreign currency are translated in accordance with the spot rate on the transaction date. Profits or losses on receivables and liabilities of an operating nature are reported among operating income and operating expenses.

Fixed Assets

Tangible and intangible fixed assets are reported at their acquisition value, less depreciation. Expenses arising from improvements in asset performance above and beyond the original level increase the reported value of the asset. Expenses arising from repair and maintenance are reported as costs.

Tangible and intangible fixed assets are written off over the estimated period of utilization. In setting the depreciation amount for the asset, the residual value of the asset is taken into account in relevant cases.

Straight-line amortization/depreciation is applied for all types of tangible and intangible assets. The following depreciation periods are applied:

Intangible Fixed Assets

Software	5 years
Patents and rights	5 years
Goodwill	5 years

Tangible Fixed Assets

Machinery and equipment	5 years
Computers	3 years

In cases in which the reported value of an asset exceeds its estimated recovery value, the asset is immediately written down to its recovery value.

Write-downs

When there is an indication that an asset or group of assets has been reduced in value, an evaluation of its reported value is made. In those instances where the recorded value exceeds the estimated recovery value, the recorded value is immediately written down to the recovery value. In those instances where goodwill is attributable to a group of assets, for which a write-down need has been found to exist, the write-down amount is first allocated towards goodwill and thereafter to other assets in proportion to their recorded value.

Inventories

Inventories are valued in accordance with the first in, first out principle and at the acquisition value. Proprietary finished and semi-finished products are valued at their manufacturing cost. Individual obsolescence assessments have been made for the Company's products.

Research and Development

Expenses arising from research are charged immediately. Expenses arising from development projects are capitalized as intangible assets when these expenses are expected to generate future financial benefits. Other development expenses are charged as they arise. Development costs that were previously expensed are not capitalized as assets in subsequent periods.

All research and development costs are expensed in the parent company.

Financial Leasing Agreements

When leasing agreements mean that the group, as the lessee, essentially utilizes the financial benefits and assumes the financial risks associated with the leasing object, the object is reported as a fixed asset in the consolidated balance sheet. Corresponding obligations for paying future leasing fees are reported as a liability.

All leasing agreements are reported in the parent company irrespective of whether they are financial or operational, as rental agreements (operational leasing agreements).

Other Assets and Liabilities

Other assets and liabilities have been reported at their acquisition value unless otherwise stated.

Cash Flow Statement

The cash flow statement has been prepared in accordance with the indirect method. The reported cash flow covers only transactions that entail incoming or outgoing payments.

In addition to cash and bank balances, current financial investments are reported as liquid funds when they are subject only to insignificant risks of fluctuations in value and when they are:

– traded in an open market at known amounts; or

– have a shorter remaining maturity than three months from the acquisition date.

Taxes

Reported income taxes encompass taxes that are to be paid or received for the particular year, adjustments for preceding years' paid tax, and changes in deferred tax. Valuation of all tax liabilities/receivables are conducted in nominal amounts and in accordance with the tax rules and tax rates set or planned, and which are likely to be enforced. For items reported in the statement of operations, the associated tax effects are also reported in the statement of operations. The tax effects of items reported directly against shareholders' equity are reported against shareholders' equity. Deferred tax is calculated in accordance with the balance sheet method for all temporary differences that arise between the reported values of assets and liabilities and their values for tax purposes. Temporary differences arise primarily as a result of losses for tax purposes.

A value for loss carry-forwards has not been reported in the balance sheet since it is difficult to assess when the loss carry-forwards can be utilized.

Financial Instruments

Financial instruments reported in the balance sheet include other financial receivables, accounts receivables, accounts payable trade, and loans. The market value of financial instruments is calculated according to actual market quotes at year-end. For other financial instruments where the market value is not listed, the market value is considered to correspond to the book value.

Accounts Receivable. Accounts receivable are recorded as current assets in the amount that is expected to be paid after making deductions for individually evaluated uncertain accounts receivable.

Financial Receivables. Financial receivables that are acquired with the intent of being held long-term are reported at their acquisition value after deductions for accumulated write-downs if a stated decrease in valuation is deemed to be permanent.

Loans. Loans are initially reported at their acquired amount following deductions for transaction costs. If the reported amount differs from the amount to be repaid on the due date, the difference is distributed over a period of time as interest expenses or interest revenues over the duration of the loan. That allows the recorded amount and the amount to be repaid to be reconciled at the due date.

Reporting of financial liabilities ceases once the liabilities have been regulated through repayment or have been waived.

All transactions are reported on their settlement day.

Transaction Exposure. Accounts receivable and accounts payable in foreign currency are valued at the rate in force at the yearend. Hedging transactions relating to future flows in foreign currencies affect earnings as the hedged receivables and liabilities are reported in the balance sheet. Hedging transactions are valued at the rate in force at the year-end and revaluation is reported in the operating profit/loss.

Hedging Financial Receivables and Liabilities in Foreign Currency. Currency futures are contracted with the intent of protecting the group against changes in exchange rates by using the contracts to set the rate at which an asset or liability in foreign currency will be sold. An increase or decrease in the amount required to regulate the asset/liability is compensated by a corresponding change in value in the future contract. Both the asset/liability and the derivative instrument are valued at the rate in force at the year-end with changes in value being reported in the operating profit/loss. For a financial fixed asset and the derivative instrument that is used as a hedging instrument, the change in value is reported in the operating profit/loss item, profit/loss from other securities and receivables that are fixed assets. For a financial current asset that is not relating to operations and the derivative instrument that is used as a collateral instrument, changes in value are reported in the item, other interest income and similar statement of operations items. For a liability that does relate to operations and the derivative instrument used as a hedging instrument, changes in value should be reported in the item, interest expenses and similar statement of operations items. The interest element (futures premiums/official discount rate) in a contract is distributed over the duration of the contract as interest.

Offsetting Financial Receivables and Financial Liabilities. A financial asset and a financial liability are offset and accounted for with a net amount in the balance sheet only if legal right of offset exists and when a reconciliation with a net amount is intended to occur or when an asset is divested and the settlement of debt is intended to occur at the same time.

Share-related Compensation

Share-related compensation (stock options) is accounted as an expense over the vesting period based on the actual value of the stock options at the starting point for the respective option plans. Social security expenses on this benefit that are expected to arise upon an increase in value are accounted for over the vesting period.

Note 2 Distribution of Income

	Group			Parent		
	2002-05-01–2002-12-31	2003	2004	2002-05-01–2002-12-31	2003	2004
Sales of goods	2,421	4,410	3,489	2,421	4,410	3,489
Sales of services	540	465	140	540	465	140
License income	–	16,485	83,086	–	16,485	83,086
Total	**2,961**	**21,360**	**86,715**	**2,961**	**21,360**	**86,715**

Note 3 Reporting by Segment

The group develops and markets pharmaceuticals. These activities constitute a single operational segment, which is why no reporting for the primary segment has been established.

Secondary Segments – Geographical Areas

The group's operations are conducted in three main geographic areas. Additionally, no single country or area contributes more than 10% of total consolidated sales. Sales figures are based on the country where the customer is located. There are no sales between geographic areas.

	Group		
	2002-05-01–2002-12-31	2003	2004
Sales per geographical area			
Nordic region	2,087	3,127	2,987
Other European Union countries	135	622	472
South East Asia (primarily Japan)	392	17,254	11,657
The United States	–	–	71,525
Other countries	347	357	74
Total	**2,961**	**21,360**	**86,715**

All assets and investments are located in Sweden.

Note 4 Exchange Rate Differences

Operating profit includes exchange rate differences in respect of operating receivables and operating liabilities as follows:

	Group			Parent		
	2002-05-01–2002-12-31	2003	2004	2002-05-01–2002-12-31	2003	2004
Other operating income	57	299	672	57	299	671
Other operating expenses	(199)	(523)	(351)	(199)	(523)	(346)
Total	**(142)**	**(224)**	**321**	**(142)**	**(224)**	**325**

Note 5 Amortization and Write-Downs

Amortization and write-downs (and the resulting write-backs) of material and immaterial fixed assets for the group amounted to 16,036 (4,685 and 1,871) and for the parent company to 2,418 (3,612 and 1,871).

Included in the amortization and write-downs amount of 16,036 for the group in 2004 was a write-down for consolidated goodwill amounting to 10,401. This goodwill is residual goodwill attributable to the acquisition of CePeP AB. Since the Company chose to focus on other technologies, this technology is not expected to generate financial advantages for the group in the foreseeable future. The recovery value is calculated according to the cash flow method with anticipated future revenue and expenses. Factored into that calculation are the likelihood of project phases and a discounting factor of 15%. Amortization is recorded in the research and development costs item on the statement of operations.

Note 6 Remuneration Paid to Auditors

	Group			Parent		
	2002-05-01–2002-12-31	2003	2004	2002-05-01–2002-12-31	2003	2004
Auditing, Öhrlings PricewaterhouseCoopers	27	91	1,495	27	91	1,490
Assignments other than auditing, Öhrlings PricewaterhouseCoopers	10	168	895	10	149	895
Total	**37**	**259**	**2,390**	**37**	**240**	**2,385**

Of the total compensation of 2,390 to auditors for 2004, 1,904 in compensation was for review in conjunction with the new share issue that, at year-end, was inactive.

Note 7 Operational Leasing Agreements

The nominal value of future leasing charges for non-terminable leasing agreements are distributed as follows:

	Group			Parent		
	2002-05-01–2002-12-31	2003	2004	2002-05-01–2002-12-31	2003	2004
Due for payment within 1 year	466	526	451	466	526	451
Due for payment later than 1 year but within 5 years	1,190	653	202	1,190	653	202
Due for payment later than 5 years	–	–	–	–	–	–
Total	**1,656**	**1,179**	**653**	**1,656**	**1,179**	**653**

Leasing agreements involving operational leasing agreements during the year amounted to:

	Group			Parent		
	2002-05-01–2002-12-31	2003	2004	2002-05-01–2002-12-31	2003	2004
Leasing costs (excluding cost of premises)	140	493	827	140	493	827
Total	**140**	**493**	**827**	**140**	**493**	**827**

Note 8 Personnel

	Group			Parent		
	2002-05-01–2002-12-31	2003	2004	2002-05-01–2002-12-31	2003	2004
Average number of employees						
Women	9	11	14	9	11	14
Men	5	8	9	5	8	9
Total	**14**	**19**	**23**	**14**	**19**	**23**

	Group			Parent		
	2002-05-01–2002-12-31	2003	2004	2002-05-01–2002-12-31	2003	2004
Salaries, remuneration and payroll overheads						
Salaries and other remuneration, board and CEO	1,238	3,286	4,879	1,238	3,283	4,879
Salaries and other remuneration, other employees	4,147	9,354	13,089	4,147	8,908	13,057
Pension costs, board and CEO	253	381	77[1)]	253	381	77
Pension costs, other employees	603	1,879	2,423[1)]	603	1,883	2,419
Payroll overheads, board and CEO	467	1,169	1,006	467	1,169	1,006
Payroll overheads, other employees	1,593	3,749	10,251[2)]	1,593	3,606	10,246
Other personnel costs	924	1,026	2,929	924	804	2,045
Total	**9,225**	**20,844**	**34,654**	**9,225**	**20,034**	**33,729**

1) Refers in its entirety to defined contribution pension plan.

2) Of which 5,280 refers to anticipated expenses for social security expenses relating to the stock option plan.

Remuneration

Remuneration to the board of directors, including the chairman of the board, is determined by shareholders at the annual general meeting. No other compensation has been paid for work on board committees. The compensation paid to the President and Chief Executive Officer and other senior executives as specified on page 75, can be delivered in the form of fixed salaries, pension and other benefits. Orexo is currently not party to any agreement and has made no decision regarding bonuses or other variable compensation to the Company's employees. Orexo's remuneration committee consists of Håkan Åström, Johan Christenson and Zsolt Lavotha. During the year, the committee has reviewed a new options plan for employees and coworkers, which it has recommended to the board. Furthermore, the committee has dealt with questions regarding compensation to the former President. The board has discussed the remuneration committee's recommendation and made a decision based on the committee's recommendations. During 2004, the remuneration committee met two times.

Overall compensation for the board of directors of Orexo amounted to SEK 700,000 for the financial year 2004, of which SEK 400,000 consisted of compensation to the board's chairman and SEK 300,000 was for the other board members. In addition, the chairman of the board Håkan Åström was awarded SEK 400,000 in remuneration for extra efforts relating to his work as board chairman during the period from January to April 2004, in connection with the appointment of a new President and Chief Executive Officer, in accordance with a decision by the Company's remuneration committee and board.

Two of Orexo's board members, Christer Nyström and Kjell Strandberg have, through jointly or wholly owned companies, entered into consulting agreements with Orexo. For additional information see Note 29 "Transactions with closely related parties".

Zsolt Lavotha was appointed President and Chief Executive Officer of Orexo on April 1, 2004. His employment is covered by a notice period of 12 months for both parties. The agreement does not provide entitlement to severance pay exceeding the contractual notice period. Zsolt Lavotha's monthly salary is SEK 150,000 for 2004. In addition, he is entitled to other benefits totaling approximately SEK 300,000 annually, including housing and expenses compensation. In conjunction with Zsolt Lavotha being named President and Chief Executive Officer of Orexo, he received a signing bonus of SEK 1.5 million. Zsolt Lavotha is not entitled to any pension from Orexo.

For other senior executives, refer to the Company's management group, presented on page 74, excluding the President and Chief Executive Officer. Total compensation for financial year 2004 to other senior executives at Orexo totaled SEK 8.1 million, which consisted of SEK 6.9 million in fixed salaries, SEK 0.3 million in other benefits including car and travel expenses, and pension payments of SEK 0.9 million. No bonus payments were made. Senior executives are included in the fee-based pension plans that essentially correspond to the premium levels for the ITP plan. There are no obligations on the part of Orexo regarding early retirement for senior executives. Employment contracts can be terminated with between three and 12 months notice. With certain exceptions, the period of notice applies regardless of which party terminates the contract. The main exception is that Orexo must always conform to any legislated periods of notice that might be longer. Monthly salary shall be paid out during the entire period of notice. There are no other agreements regarding severance pay for senior executives. The number of options held by the President and Chief Executive Officer and senior executives is provided on page 84.

In addition to the base salary for senior executives, remuneration in the amount of SEK 500,000 was paid to the acting President and Chief Executive Officer for the period December 2003 through March 2004.

Orexo has not granted loans to, submitted guarantees for or furnished collateral on behalf of the Company's board members, senior executives or accountants. None of the board members, senior executives or accountants have directly, or indirectly through affiliated companies or their immediate families, been involved in business arrangements with Orexo on anything other than market terms.

Share-based Incentive Program

Orexo has introduced share-based incentive plans, consisting of warrants and stock options, designed to promote the Company's long-term interests by motivating and rewarding certain of the Company's directors, members of management, other employees and certain other collaborators and business partners of the Company. Approximately 40 individuals have participated in Orexo's share-based incentive plans since 2002. As of December 31, 2004, warrants and stock options entitling holders to in total 3,965 new shares in Orexo have been awarded. Title to the warrants is transferred to the employee or other participant in the incentive plan directly upon allocation, whereas the stock options are vested in each holder in three equal installments on each of the three first anniversaries of the allocation date, provided that the holder remains employed by Orexo on such date. On the day of this annual report, stock options corresponding to a total of 755 new shares had been vested by participants in the stock option plans. See the following pages for a more detailed description of the individual incentive programs. The table below shows all warrants and stock options that have been issued in accordance with Orexo's incentive program.

	Ownership			
Type of security	**Number of securities (stock options/warrants)[1)]**	**Number of shares that securities entitle**	**Warrant price (SEK)**	**% of shares and votes[2)]**
Stock options 2002	1,013	1,013	2,300	2.4%
Stock options 2003	240	240	3,171	0.6%
Stock options 2004[3)]	500	500	4,530	1.2%
Warrants	558	558	2,300	1.3%
Warrants	657	657	4,530	1.6%
Warrants[4)]	273	273	9,060	0.6%
Subtotal	**3,241**	**3,241**	**–**	**7.7%**
Warrants intended for hedging 2002[5)]	479	479	2,300	1.1%
Warrants intended for hedging 2003[5)]	80	80	3,171	0.2%
Warrants intended for hedging 2004[5)]	165	165	4,530	0.4%
Total number of securities in the share-based incentive programs	**3,965**	**3,965**	**–**	**9.4%**

1) Stock options are vested at a rate of one-third each year: calculated from October 1, 2002 for Stock options 2002, from October 1, 2003 for Stock options 2003 and from August 1, 2004 for Stock options 2004.
2) After full dilution through utilization of warrant options.
3) 14 of these warrants have not been awarded.
4) 65 of these warrants are cancelled.
5) Warrants held by Orexo's subsidiary Pharmacall and which are intended for cash flow hedging of social security fees and which can arise through the stock option plans.

The allocation of the 486 options awarded through the 2004 stock option plan is as follows: board members 46 options, President and Chief Executive Officer zero options, other senior executives 210 and other employees 230 options. The allocation of the 1,739 options awarded through Orexo's stock option plans from 2002-2004 is as follows: board members 92 options, President zero options, senior executives 520 options and other employees 1,127 options.

Stock Option Plan 2002

During 2002, Orexo implemented a stock option plan encompassing 1,013 call options on warrants for subscription to a total of 1,013 shares in Orexo. These stock options have been awarded without charge to employees and other key individuals. In order to ensure delivery of shares in accordance with the options and as a cash flow hedge for social security expenses that will fall on Orexo when the stock options are utilized, Orexo has issued 1,492 warrants for subscription to 1,492 shares in the Company to the wholly-owned subsidiary Pharmacall, of which 479 warrants for subscription to 479 shares are allocated for cash flow hedging purposes.

Request for exercise may be made for one-third of the total number of allotted stock options in each of the three years from the commencement date (October 1, 2002). In cases in which employment ceases during the aforementioned vesting periods, the vested options do not become due for payment. The last day to exercise stock options is December 31, 2012. The subscription price is SEK 2,300 per share. The market value per option was estimated, using the Black & Scholes model, at the end of 2004, to be SEK 14,620. Exercise of the vested options may be made no earlier than the following dates: after December 31, 2010, 360 days after the Company's share is listed on a stock exchange or authorized marketplace or other similar listing, following any bids accepted by the Company to such an extent that the bidder becomes owner of more than 90% of all outstanding shares, or following the approval of a general meeting of shareholders in the Company or by the Company's board to the effect that the requested exercise may be conducted at a date other than that stated in the stipulations.

Stock Option Plan 2003

During 2003, Orexo implemented a second stock option plan encompassing 240 call options on warrants for subscription to a total of 240 shares in Orexo. These stock options have been awarded without charge to employees and other key individuals. In order to ensure delivery of shares in accordance with the options and as a cash flow hedge for social security expenses that will fall on Orexo when the stock options are utilized, Orexo has issued 320 warrants for subscription to 320 shares in the Company to Pharmacall, of which 80 warrants for subscription to 80 shares are allocated for cash flow hedging purposes.

Request for exercise may be made for one-third of the total number of allotted stock options in each of the three years from the commencement date (October 1, 2003). In cases in which employment ceases during the aforementioned vesting periods, the vested options do not become due for payment. The last day to exercise stock options is December 31, 2013. The subscription price is SEK 3,171 per share. The market value per option was estimated, using the Black & Scholes model, at the end of 2004 to be SEK 14,090. Exercise of the vested options may be made no earlier than the following dates: after December 31, 2011, 360 days after the Company's share is listed on a stock exchange or authorized marketplace or other similar listing, following any bids accepted by the Company to such an extent that the bidder becomes owner of more than 90% of all outstanding shares, or following the approval of a general meeting of shareholders in the Company or by the Company's board to the effect that the requested exercise may be conducted at a date other than that stated in the stipulations.

Stock Option Plan 2004

In July 2004, Orexo's board decided to implement a third stock option plan encompassing 500 call options on warrants for subscription to a total of 500 shares in Orexo, of which 486 have been awarded without charge to employees and other key individuals. In order to ensure delivery of shares in accordance with the options and as a cash flow hedge for social security expenses that will fall on Orexo when the stock options are utilized, Orexo has issued 665 warrants for subscription to 665 shares in the Company to Pharmacall, of which 165 warrants for subscription to 165 shares are allocated for cash flow hedging purposes.

Request for exercise may be made for one-third of the total number of allotted stock options in each of the three years from the commencement date (August 1, 2004). In cases in which employment ceases during the aforementioned vesting periods, the vested options do not become due for payment. The last day to exercise stock options is June 30, 2014. The subscription price is SEK 4,530 per share. The market value per option was estimated, using the Black & Scholes model, at the time of issue in August 2004, to be SEK 13,510 and by the end of 2004 to be SEK 13,275.

Exercise of the vested options may be made no earlier than the following dates: after December 31, 2012, 360 days after the Company's share is listed on a stock exchange or authorized marketplace or other similar listing, following any bids accepted by the Company to such an extent that the bidder becomes owner of more than 90% of all outstanding shares, or following the approval of a general meeting of shareholders in the Company or by the Company's board to the effect that the requested exercise may be conducted at a date other than that stated in the stipulations.

Cash flow Related Hedges for Social Costs

As mentioned above, the social security expenses that can result from exercising the call options in accordance with the three stock option plans have been hedged in terms of cash flow through warrants held by Pharmacall. For accounting purposes, Orexo must report the social security expenses as the fixed market value of the Company's shares increases. Provisions for social security fees are made during the vesting period.

Warrants

During 2002, Orexo issued 558 warrants for subscription to 558 shares in the Company to Pharmacall. Those warrants were transferred to certain individuals, including Håkan Åström, during 2004. Håkan Åström acquired 230 warrants for subscription to 230 shares in the Company for a total purchase price of approximately SEK 414,000, a fair market price in the estimation of the board of directors. The last day for exercising the warrants is December 31, 2012 at a subscription price of SEK 2,300 per share.

In April 2004, Orexo issued another 657 options rights for subscription to 657 shares in Orexo to Parmacall. Those warrants entitle the holder to a new subscription of shares in Orexo between April 1, 2007 and March 31, 2011 at a subscription price of SEK 4,530 per share. Those 657 options were transferred to Zsolt Lavotha along with 289 warrants of the same series that were acquired by Håkan Åström (see paragraph above).

The total purchase price for the 657 shares plus 289 options was approximately SEK 1.1 million, a fair market price in the estimation of the board of directors.

Zsolt Lavotha also holds 35 warrants, which were acquired in a unit issue in August 2004 under the same conditions offered to other shareholders. In addition to what is specified above, Orexo issued 273 warrants for subscription for 273 shares in Orexo to Pharmacall in conjunction with the Company's acquisition of CePeP. Of those warrants, 208 were transferred to holders of warrants for CePeP in exchange for warrants in CePeP.

Board Members and Senior Executives

	2002		2003		2004	
	Number at year-end	Of which, men	Number at year-end	Of which, men	Number at year-end	Of which, men
Group (including subsidiaries)						
Board members	9	100%	9	100%	7	86%
President/CEO and senior executives	5	100%	6	83%	7	71%
Parent Company						
Board members	7	100%	8	100%	6	83%
President/CEO and senior executives	5	100%	6	83%	7	71%

Illness Absenteeism

	Parent	
(%)	July 1, 2003–Dec 31, 2003	Jan 1, 2004–December 31, 2004
Total illness absenteeism, % of total ordinary work time	5.6	5.2
of which long-term illness absenteeism	39.9	74.5
Illness absenteeism for men		0.4
Illness absenteeism for women		8.3
Illness absenteeism for employees, –29 years old		0.8
Illness absenteeism for employees, 30-49 years old	7.7	7.4
Illness absenteeism for employees, 50 years or older		0.1

Note 9 Write-downs of shares in subsidiaries

As of December 31, 2004, a write-down in the amount of 20,112 was made for shares in the subsidiary CePeP AB. Since the Company chose to focus on other technologies, this technology is not expected to generate financial advantages for the group in the foreseeable future, which is why the write-down was made.

Note 10 Other financial expenses

Other financial expenses totaling 10,455 refer to expenses for a new share issue that was dormant at year-end. Expenses refer to costs in conjunction with a larger planned international ownership diversification with related new share issue. The board has decided to defer this transaction, which is why the entire cost has been debited to 2004 earnings.

Note 11 Loss per share

	Group		
	2002-05-01–2002-12-31	2003	2004
Reported earnings	(20,803)	(27,593)	(15,944)
Earnings used in calculating loss per share before dilution	(20,803)	(27,593)	(15,944)
Earnings used in calculating loss per share after dilution	(20,803)	(27,593)	(15,944)

	Group		
	2002-05-01–2002-12-31	2003	2004
Average number of shares before dilution	25,031	28,117	35,361
Anticipated conversion of stock options	1,138	1,213	2,545
Average number of shares after dilution	26,169	29,330	37,906

All share-related figures refer to figures prior to the split approved by the general meeting of shareholders on July 15, 2004, which is conditional on an agreement between the main owners. The conditions had not yet been met at the time of issuance of the annual report.

Note 12 Tax on Profit/Loss for the Year

	Group			Parent		
	2002-05-01–2002-12-31	2003	2004	2002-05-01–2002-12-31	2003	2004
Current tax for the year	–	–	–	–	–	–
Current tax attributable to previous years	–	–	–	–	–	–
Deferred tax	–	–	–	–	–	–
Non-deductible foreign withholding tax	–	1,648	1,156	–	1,648	1,156
Total	**–**	**1,648**	**1,156**	**–**	**1,648**	**1,156**

Note 13 Deferred Tax

	Group			Parent		
	2002-05-01–2002-12-31	2003	2004	2002-05-01–2002-12-31	2003	2004
Difference between group's tax cost and tax cost based on prevailing tax rate						
Reported pre-tax loss	(20,803)	(25,945)	(14,788)	(20,802)	(20,681)	(20,315)
Tax according to prevailing rate	5,825	7,265	4,141	5,825	5,791	5,688
Tax effect of non-deductible costs	(695)	(297)	(3,744)	(695)	(33)	(5,728)
Tax effect of tax-exempt income	–	(15)	1	–	(15)	1
Increase in deficit via acquisition of subsidiaries	–	2,831	–	–	–	–
Increase in non-reported deferred tax receivable for loss carry-forwards	(5,130)	(9,784)	(398)	(5,130)	(5,743)	39
Tax on net loss, as in statement of operations	**0**	**0**	**0**	**0**	**0**	**0**

Tax Rate

The prevailing tax rate is that applying to income tax in the group. The tax rate is 28%.

Temporary Differences

Temporary differences arise in cases in which the reported values of assets and liabilities or their values for tax purposes differ. Temporary differences regarding the following items have resulted in deferred tax liabilities or deferred tax receivables.

	Group			Parent		
	2002	2003	2004	2002	2003	2004
Deferred tax receivables						
Loss carry-forwards	18,937	28,721	29,119	18,937	24,680	24,641
Non-capitalized loss carry-forwards	(18,937)	(28,721)	(29,119)	(18,937)	(24,680)	(24,641)
Deferred tax receivables, net	**0**	**0**	**0**	**0**	**0**	**0**

The difference in the parent company between, on the one hand, the income tax reported in the statement of operations during the fiscal year and previous fiscal years and, on the other, the income tax arising from operations for these years does not apply to loss carry-forwards booked as assets.

Note 14 Software

	Group			Parent		
	2002	2003	2004	2002	2003	2004
Accumulated acquisition values						
Opening acquisition value	1,698	1,698	1,698	1,698	1,698	1,698
Capitalized expenses for the year	–	–	–	–	–	–
Closing accumulated acquisition values	**1,698**	**1,698**	**1,698**	**1,698**	**1,698**	**1,698**
Accumulated depreciation according to plan						
Depreciation according to the plan for the year	(312)	(538)	(1,698)	(312)	(538)	(1,698)
Depreciation for the year	(226)	(340)	–	(226)	(340)	–
Write-down for the year	–	(820)	–	–	(820)	–
Closing accumulated depreciation according to plan	(538)	(878)	(878)	(538)	(878)	(878)
Closing accumulated write-downs according to plan	–	(820)	(820)	–	(820)	(820)
Closing planned residual value	**1,160**	**0**	**0**	**1,160**	**0**	**0**

Note 15 Patents and Rights

	Group			Parent		
	2002	2003	2004	2002	2003	2004
Accumulated acquisition values						
Opening acquisition value	10,277	10,277	10,277	10,277	10,277	10,277
Rights acquired during the year	–	–	–	–	–	–
Closing accumulated acquisition values	**10,277**	**10,277**	**10,277**	**10,277**	**10,277**	**10,277**
Accumulated depreciation according to plan						
Opening depreciation according to plan	(376)	(1,734)	(3,757)	(376)	(1,734)	(3,757)
Depreciation according to plan for the year	(1,358)	(2,023)	(1,991)	(1,358)	(2,023)	(1,991)
Closing accumulated depreciation according to plan	(1,734)	(3,757)	(5,748)	(1,734)	(3,757)	(5,748)
Closing planned residual value	**8,543**	**6,520**	**4,529**	**8,543**	**6,520**	**4,529**

Note 16 Goodwill

	Group		
	2002	2003	2004
Accumulated acquisition values			
Opening acquisition value	–	–	14,184
Rights acquired during the year	–	14,184	–
Closing accumulated acquisition values	**0**	**14,184**	**14,184**
Accumulated amortization according to plan			
Opening amortization according to plan	–	–	(946)
Depreciation according to plan	–	(946)	(2,837)
Write-downs during the year	–	–	(10,401)
Closing accumulated depreciation according to plan	–	(946)	(3,783)
Closing accumulated write-downs according to plan	–	–	(10,401)
Closing planned residual value	**0**	**13,238**	**0**

Note 17 Equipment, Machinery and Computers

	Group			Parent		
	2002	2003	2004	2002	2003	2004
Accumulated acquisition values						
Opening acquisition value	2,157	2,531	4,822	2,157	2,531	2,940
Purchases	429	436	1,222	429	436	1,222
Acquisition value of acquired subsidiaries	–	1,904	–	–	–	–
Sales/scrapping	(55)	(49)	(442)	(55)	(27)	(442)
Closing accumulated acquisition values	**2,531**	**4,822**	**5,602**	**2,531**	**2,940**	**3,720**
Accumulated depreciation according to plan						
Opening depreciation according to plan	(1,483)	(1,715)	(2,838)	(1,483)	(1,715)	(2,121)
Depreciation according to plan for the year	(287)	(808)	(806)	(287)	(428)	(427)
Accumulated depreciation in acquired subsidiaries	–	(338)	–	–	–	–
Reversed depreciation for sales/scrapping	55	23	319	55	22	319
Closing accumulated depreciation according to plan	(1,715)	(2,838)	(3,325)	(1,715)	(2,121)	(2,229)
Closing planned residual value	**816**	**1,984**	**2,277**	**816**	**819**	**1,491**

Note 18 Shares in Subsidiaries

Name	Corporate reg. no.	Reg. office	Number of shares	Acquisition value (SEK)	Depreciation (SEK)	Book value (SEK)
Pharmacall AB	556569-1739	Uppsala	1,000	100,000	–	100,000
CePeP AB	556610-9814	Uppsala	321,279	38,171,833	37,405,063	766,770

Note 19 Other Long Term Receivables

Other long-term receivables include a promissory note receivable from Retson Acquisition AB, corp. reg. no. 556582-9164. Collateral: 124,680 A shares and 33,000 B shares in Noster System AB. Nominal value of the promissory note receivable is 9,619, accumulated write-downs through December 31, 2004 were 7,214 and the book value amounts to 2,405.

Note 20 Other Receivables

	Group			Parent		
	2002	2003	2004	2002	2003	2004
VAT receivables	702	735	3,478	702	717	3,433
Tax receivables	104	110	418	104	110	418
Other receivables	22	124	517	22	68	516
Total	**828**	**969**	**4,413**	**828**	**895**	**4,367**

Note 21 Prepaid Expenses and Accrued Income

	Group			Parent		
	2002	2003	2004	2002	2003	2004
Prepaid rents	116	118	156	116	118	156
Prepaid leasing fees	171	327	176	171	327	176
Accrued interest income	57	–	18	57	–	18
Other interim receivables	643	1,379	656	643	1,300	656
Prepaid personnel costs[1)]	814	306	4,342	814	306	4,342
Total	**1,801**	**2,130**	**5,348**	**1,801**	**2,051**	**5,348**

1) Refers to the actual value of the stock option plan, which offsets earnings over the vesting period.

Note 22 Cash and Bank Balances

	Group			Parent		
	2002	2003	2004	2002	2003	2004
Cash and bank balances	6,849	15,482	54,240	6,762	2,485	53,817
Bank deposits	8,000	0	30,000	8,000	–	30,000
Total	**14,849**	**15,482**	**84,240**	**14,762**	**2,485**	**83,817**

Note 23 Share Capital

Change in number of shares, parent company	
Number of shares, May 1, 2002	**25,030**
New share issue	6
Number of shares, Dec. 31, 2002	**25,036**
New share issue	9,242
Number of shares, Dec. 31, 2003	**34,278**
New share issue	2,674
Number of shares, Dec. 31, 2004	**36,952**

The par value of each share is SEK100.

As of December 31, 2004, the number of shares outstanding in the Company was 36,952 of which 19,083 were ordinary shares and 17,869 were preference shares. All shares entitle the holder to one voting right. Preference shares are subject to terms and conditions set out in the Company's articles of association. As a result of an agreement with a majority of the shareholders, the current preference shareholders have agreed, subject to certain conditions, to convert their preference shares to ordinary shares in connection with a listing of the Company's shares on the Stockholm Stock Exchange or another authorized marketplace.

In August 2004, the Company implemented a unit issue. The price per unit was SEK 39,223. Each unit consisted of two shares and one warrant. Each warrant entitles the holder to subscribe for one new ordinary share in the Company, through July 15, 2014. The exercise price was SEK 19,611.40 per share. Since the Company's shares were not subject to listing on a stock exchange by July 15, 2005, notification of subscription should have occurred no later than August 15, 2005. The exercise price should in such case be SEK 100 per share or, if the share's nominal value was less than SEK 100 per share, an amount corresponding to the nominal value. The total number of units subscribed in the issue was 1,337, with warrants entitling holders to subscribe to at most 1,337 new shares in the Company.

At an extraordinary general meeting of shareholders in Orexo on July 15, 2004, the board received authorization to decide on a new share issue of 10,000 shares. That authorization was valid until either the next annual general meeting of shareholders or the listing of Orexo's shares on a stock exchange or other organized marketplace. As of December 31, 2004 the 2,674 warrants issued in conjunction with this unit issue were exercised at a price of SEK 19,611.

Note 24 Other Liabilities

	Group			Parent		
	2002	**2003**	**2004**	**2002**	**2003**	**2004**
Personnel tax at source	305	1,279	491	305	1,279	491
Less: payroll overhead	227	801	385	227	801	385
Less: special payroll overhead	414	549	606	414	549	606
Other current liabilities	3,302	175	409	3,302	119	40
Total	**4,248**	**2,804**	**1,891**	**4,248**	**2,748**	**1,522**

Note 25 Accrued Expenses and Prepaid Income

	Group			Parent		
	2002	2003	2004	2002	2003	2004
Accrued wages/salaries	–	105	1,298	–	37	1,297
Accrued vacation pay	759	909	1,510	759	909	1,510
Accrued pension costs	–	97	–	–	97	–
Accrued payroll overhead	357	553	1,125	357	421	1,125
Accrued payroll overhead, options	48	216	5,495	48	216	5,495
Accrued interest expense	8	78	–	8	78	–
Other interim liabilities	760	2,515	5,195	757	1,287	5,182
Total	**1,932**	**4,473**	**14,623**	**1,929**	**3,045**	**14,609**

Note 26 Pledged Assets

	Group			Parent		
	2002	2003	2004	2002	2003	2004
Chattel mortgages for overdraft facility	2,500	2,500	2,500	2,500	2,500	2,500

Note 27 Contingent Liabilities

	Group			Parent		
	2002	2003	2004	2002	2003	2004
Guarantee undertaking, Swedish Customs Authority	50	50	50	50	50	50
Patent applications	–	1,500	1,500	–	–	–
Total	**50**	**1,550**	**1,550**	**50**	**50**	**50**

Note 28 Cash Flow Analysis

Adjustments for items that are not included in cash flow consist of the following:

	Group			Parent		
	2002	2003	2004	2002	2003	2004
Amortization/Write-downs	4,275	4,685	16,036	4,275	3,612	22,530
Disposals	–	19	20	–	–	20
Calculated cost of stock option plan	195	674	1,986	195	674	2,199
Total	**4,470**	**5,378**	**18,042**	**4,470**	**4,286**	**24,749**

Note 29 Transactions with Closely Related Parties

Consulting agreements

Orexo has entered into consulting agreements with Porten Pharmaceutical AB, a company that is owned by Christer Nyström and Yvonne Håkansson (Christer Nyström's wife), and Kjell Strandberg Consulting AB, a company that is owned by Kjell Strandberg.

The agreement with Porten Pharmaceutical AB was entered into in October 1997 and extended until further notice. The agreement pertains to specialist services related to quality assurance, drug development and manufacturing, and dealing with patent preparation. The highest remuneration that can be paid out in accordance with the agreement during any three-month period is SEK 216,000 excluding VAT. Total remuneration under the agreement attributable to financial year 2004 amounted to SEK 830,000 excluding VAT.

The agreement with Kjell Strandberg Consulting AB was entered into in February 2004 and expired on December 31, 2004. The agreement pertained to strategic advice related to regulatory approval that Kjell Strandberg should oversee. According to the agreement, hourly remuneration was SEK 2,000 excluding VAT. Total remuneration under the agreement attributable to financial year 2004 amounted to SEK 22,000.

Purchases and Sales among Group Companies

No sales were undertaken among the companies in the group. Costs in the parent company of 1,045 were invoiced on to CePeP AB.

Remuneration and Undertakings Involving Pensions and Similar Benefits for Board Members and Chief Executive Officer

Refer to Note 8.

No other transactions with closely related parties occurred.

Note 30 Financial Risks

Managing currency and interest rate risks

Part of Orexo's operations involve exposure to financial risks due to changes in currency and interest rates. In order to effectively deal with these risks, Orexo has established guidelines and a detailed financial policy regarding how such risks should be dealt with and limited. Orexo's financial policy even specifies assignment of responsibilities and reporting instructions for management.

According to the Company's financial policy, Orexo can enter into hedging transactions in an attempt to completely or partially counteract negative effects of exposure to risks in the financial markets. The main goal of Orexo's financial operations is to limit negative deviations in financial results, shareholder equity and cash flow resulting from changes to interest rates or exchange rates. Orexo does not enter into hedging transactions for purely speculative purposes. Orexo cannot guarantee that these hedging strategies will be effective or that currency transaction losses or conversion losses can be limited or forecasted correctly.

Orexo's finance function may use futures, options, currency swaps, interest-rate swaps and forward-rate agreements in order to limit currency and interest-rate risks that the Company might be exposed to.

Orexo's primary market risk is currency exposure. Below is a sensitivity analysis regarding Orexo's exposure to the dollar and the euro.

Interest-rate risks and certain risks in the management of liquid assets

Orexo is exposed to interest-rate risks attributable primarily to the Company's investments in surplus liquidity in interest-bearing instruments. Orexo's finance function is responsible for dealing with interest-rate risks. The main goal of Orexo's interest rate management is to reduce the negative effects of interest fluctuations on net interest income/expense. According to Orexo's policy for management of interest-rate risk, excess liquidity should first be used for amortization of any liabilities presuming that such amortization does not increase costs for the group or in any way conflict with Orexo's financial policy. Furthermore, Orexo strives when buying securities with excess liquidity to ensure that these have a low risk profile with normally a one-year duration at most. Orexo normally retains instruments until their maturity date.

Credit and counterparty risks refer to the risk of a counterparty not fulfilling their obligation to repay a liability or to pay interest on such a liability. According to Orexo's financial policy, the Company can have the following counterparties or invest in the following instruments: the Kingdom of Sweden, Nordea, FöreningsSparbanken, Handelsbanken, SEB, Upplandsbanken, securities issued by the Swedish mortgage institutes, Swedish municipalities or

county councils with a K-1 rating from Standard & Poor's, and business certificates with a K-1 rating from Standard & Poor's. Except for the Kingdom of Sweden, for which unlimited exposure is allowed, the maximum exposure allowed to a counterparty is between SEK 20 million and SEK 100 million.

According to Orexo's financial policy, all assets in Orexo's investment portfolio shall always be saleable within five banking days or within the time required based on the most recent budget or forecast.

Currency risks

Orexo's accounting is reported in SEK and the Company has its operations in Sweden. A majority of its operating costs are therefore in SEK. However, the Company markets its products in countries other than just Sweden and receives licensing revenues in currencies other than SEK. Assets, liabilities, revenue and expenses in foreign currencies give rise to currency risks. A weakening of the SEK against other currencies increases Orexo's recorded assets, liabilities, revenues and earnings, while a strengthening of the SEK against other currencies reduces those items. Currency fluctuations have not previously had any significant impact on Orexo's recorded assets, earnings or comparability of Orexo's earnings between various time periods, but could have that effect in the future.

Currency risks consist of translation exposure and transaction exposure.

Transaction exposure

Transaction exposure arises when a sale occurs in a different currency than the related costs and fees. A significant portion of Orexo's transaction exposure is attributable to the sale of Diabact® UBT outside of Sweden and licensing revenue for the Company's products in currencies other than SEK. Orexo limits the Company's transaction exposure as much as possible by matching the inflow and outflow of a particular currency. Also, Orexo strives to hedge at least 50% of the net flow for the time period for which a cash flow forecast can be made with a high degree of certainty.

Effects of currency risk exposure

A significant portion of Orexo's sales are in currencies other than SEK, primarily the dollar and the euro. A majority of Orexo's operating costs, however, are in SEK. For the financial year 2004, sales in dollars accounted for 95.8% of net sales, while sales in euros accounted for 3.3%. During the same period, 8.2% of total operating costs were in foreign currencies, with 1.8% in dollars and 4.5% in euro. For the financial year 2003, 79.8% of net sales were in dollars and 12.9% in euro. During that same period, 6.8% of Orexo's total operating costs were in foreign currency, with 1.8% in dollars and 2.5% in euro.

The table below shows currency exposure in 2003 and 2004 and how Orexo's operating profit/loss was impacted by a reduction or an increase of 1% for a given currency against the SEK, without the impact of hedging transactions.

Rate changes compared with SEK (thousands)

	+1%		(1)%	
	Financial year 2003	**Financial year 2004**	**Financial year 2003**	**Financial year 2004**
Dollar	+162	+809	(162)	(809)
Euro	+15	+13	(15)	(13)

Note 31 Occurrences after Finalization of Accounts

During March 2005, Orexo was informed by the Swedish tax authority about the possibility of assessing the Company with additional VAT of approximately SEK 2.0 million. According to a decision by the tax authority, the maximum amount Orexo can be charged is SEK 0.4 million.

Note 32 Information on Orexo AB (publ)

Orexo AB (publ) has its registered office in Uppsala, Sweden, and the address to the Company's head office is Kungsgatan 109, SE-753 18 Uppsala, Sweden.

UNAUDITED INTERIM CONDENSED NINE MONTHS ENDED SEPTEMBER 30, 2005 CONSOLIDATED STATMENTS OF OPERATIONS

		For the year ended December 31,	Nine months ended September 30 (unaudited)	
(SEK thousands)	Note	2004[1]	2004[1]	2005[1]
Net revenues	2	86,715	85,931	58,998
Cost of goods sold	3	(1,930)	(1,311)	(2,160)
Gross profit		**84,785**	**84,620**	**56,838**
Selling costs	3	(1,839)	(1,375)	(1,696)
General and administrative costs	3	(24,638)	(17,022)	(25,729)
Research and development costs	3	(64,398)	(38,147)	(47,634)
Other operating revenue		672	620	971
Other operating costs	3	(368)	(334)	(159)
Profit from sales of subsidiary	7	–	–	8,865
Operating loss		**(5,786)**	**28,362**	**(8,544)**
Earnings from net financial items				
Interest income and similar items		695	256	684
Interest expenses and similar items		(79)	(79)	(6)
Other financial items		(10,455)	0	–
Loss after financial items		**(15,625)**	**28,539**	**(7,866)**
Tax on the year's income	4	(1,156)	(1,156)	0
Net loss		**(16,781)**	**27,383**	**(7,866)**
Loss per share, SEK[2]		(474.56)	786.19	(211.70)
Loss per share after full dilution, SEK[3]		(474.56)	732.60	(211.70)
Number of shares at end of period		36,952	36,952	38,289
Average number of shares outstanding		35,361	34,830	37,249

1) As of January 1, 2005, the Orexo group began applying IFRS in accordance with EU regulations. The preliminary effects of the transition have been reflected in Orexo's financial statements through an adjustment of shareholders' equity for 2004. Comparable financial figures for 2004 have been restated. See the section entitled "Effects of the Application of IFRS".

2) Profit per share is computed as the average number of shares outstanding during the period.

3) The average number of shares after dilution amounted to 37,249 at September 30, 2005 (35,361 at December 31, 2004 and 37,378 at September 30, 2004).

UNAUDITED INTERIM CONDENSED NINE MONTHS ENDED SEPTEMBER 30, 2005 CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(SEK thousands)	Note	As at December 31, 2004[1)]	As at September 30, 2004[1)]	As at September 30, 2005[1)]
ASSETS				
Fixed assets				
Intangible fixed assets		4,529	5,027	3,045
Goodwill		–	13,237	–
Tangible fixed assets		2,277	2,409	2,843
Financial fixed assets		2,405	2,405	2,405
Total fixed assets		**9,211**	**23,078**	**8,293**
Current assets				
Inventories		1,419	2,070	2,337
Current receivables		6,805	6,332	58,412
Cash and bank balances		84,240	111,235	28,559
Total current assets		92,464	119,637	89,308
Total assets		**101,675**	**142,715**	**97,601**
EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	5	3,695	3,695	3,829
Statutory reserves		204	204	204
Share premium reserve		94,214	109,513	71,858
Accumulated deficit		(23,019)	2,938	(7,371)
Total shareholders' equity		**75,094**	**116,350**	**68,520**
Current liabilities, non-interest bearing		26,581	26,365	29,081
Total equity and liabilities		**101,675**	**142,715**	**97,601**
Assets pledged and contingent liabilities:				
Assets pledged for own account		2,500	2,500	2,500
Contingent liabilities		1,550	1,550	50

1) As of January 1, 2005, the Orexo group began applying IFRS in accordance with EU regulations. The preliminary effects of the transition have been reflected in Orexo's financial statements through an adjustment of shareholders' equity for 2004. Comparable financial figures for 2004 have been restated. See the section entitled "Effects of the Application of IFRS".

UNAUDITED INTERIM CONDENSED NINE MONTHS ENDED SEPTEMBER 30, 2005 CONSOLIDATED CASH FLOW STATEMENTS

(SEK thousands)	Notes	For the year ended December 31, 2004[1)]	Nine months ended September 30 (unaudited) 2004[1)]	2005[1)]
OPERATING ACTIVITIES				
Loss before tax		(15,625)	28,539	(7,866)
Taxes paid		(1,156)	(1,156)	0
Adjustment for items not affecting cash flow	6	18,879	3,583	(2,454)
Cash flow from operating activities before changes in working capital		**2,098**	**30,966**	**(10,320)**
Cash flow from changes in working capital:				
Change in accounts receivables		(319)	(274)	(51,457)
Change in other current receivables		(2,629)	(2,199)	(150)
Change in inventories		(62)	(713)	(918)
Change in current liabilities		16,818	16,846	1,606
Cash flow from operating activities		**15,906**	**44,626**	**(61,239)**
INVESTMENT ACTIVITIES				
Acquisition of machinery and equipment		(1,120)	(1,020)	(1,905)
Proceed from sales of subsidiary		–	–	9,405
Cash flow after investing activities		**14,786**	**43,606**	**(53,739)**
FINANCING ACTIVITIES				
Proceeds from new share issues		53,972	52,147	(1,942)
Total cash flow after financing activities		**68,758**	**95,753**	**(55,681)**
CASH FLOW FOR THE YEAR				
Liquid funds, at the beginning of period		15,482	15,482	84,240
Change in liquid funds		**68,758**	**95,753**	**(55,681)**
Liquid funds, at the end of period		**84,240**	**111,235**	**28,559**

1) As of January 1, 2005, the Orexo group began applying IFRS in accordance with EU regulations. The preliminary effects of the transition have been reflected in Orexo's financial statements through an adjustment of shareholders' equity for 2004. Comparable financial figures for 2004 have been restated. See the section entitled "Effects of the Application of IFRS".

NOTES

(All amounts are in SEK thousands, unless otherwise stated)

1. General information

Orexo is a product oriented drug delivery company focusing on the development of new pharmaceuticals in areas currently showing major medical needs. Using its broad knowledge platforms in medicine and pharmacology, Orexo works with the further development of existing pharmaceutical substances. New patented drugs can be developed by combining well documented pharmaceutical substances with the Company's proprietary, patented drug delivery methods and unique expertise in what is referred to as "dry preparations" (such as tablets).

The parent company is Orexo AB (publ), with its registered office in Uppsala, Sweden, and the address to the Company's head office is Kungsgatan 109, SE-753 18 Uppsala.

1.1 Basis of preparation for the Unaudited Condensed Interim Accounts

The condensed consolidated financial statements included herein have been prepared by Orexo, without audit, pursuant to IAS 34. Certain information and footnote disclosures normally included in financial statements prepared in accordance with IFRS have been condensed or omitted pursuant to IAS 34. The condensed balance sheet as of December 31, 2004 has been derived from the audited financial statements as of that date, but does not include all disclosures required by IFRS. Orexo believes that the disclosures included in the unaudited condensed consolidated financial statements when read in conjunction with the financial statements and the notes thereto included in the Company's 2004 Special Purpose Preliminary IFRS Financial Information are adequate to make the information presented not misleading.

1.2 Summary of key accounting principles

The accounting principles and method of calculations that have been used is the same that have been used in the preparation of the 2004 Special Purpose Preliminary IFRS Financial Information on page F-45.

Orexo believes that the condensed consolidated financial statements reflect all adjustments, which include only normal recurring adjustments, necessary for a fair statement of Orexo's financial position, results of operations and cash flows for the periods presented. The result of operations for the nine months ended September 30, 2005 is not necessarily indicative of the results that may be expected for any other interim period or for the full fiscal year. For a description of the effects of the application of IFRS, see the section entitled "Effects of the application of IFRS" on page F-38.

2. Net sales

Net sales for the period January - September 2005 amounted to SEK 59.0 million (SEK 85.9 million in 2004). The sales were according to plan and are mainly attributable to the one-time payment of approximately SEK 75 million (USD 10.0 million) recorded during the third quarter of 2004, as compared to the milestone payment of approximately SEK 50 million (USD 6.5 million) recorded during the third quarter of 2005. The sale of Diabact® UBT increased to SEK 3.6 million during the third quarter of 2005 (SEK 2.7 million in 2004).

3. Cost distributed by type of cost

	January 1 – September 30	
	2004	**2005**
Raw materials and supplies	1,967	3,900
Other external costs	28,954	41,651
Personnel costs	25,180	29,664
Depreciation and write-downs	2,088	2,163
	58,189	77,378

4. Tax

Tax expenses for the period January - September 2005 amounted to SEK 0.0 (SEK 1.2 million in 2004). Taxes for the first nine months of 2004 constituted foreign withholding tax on the milestone payments received under the license agreement with Kyowa Hakko in Japan concerning OX 20, which could not be offset against Swedish income tax.

5. Shareholders' equity

Changes in consolidated shareholders' equity

	January 1 – September 30	
	2004	**2005**
Balance at December 31	35,575	75,094
Profit for the period	27,383	(7,866)
New issue of shares	52,439	–
Warrants issued	1,586	–
Subscription for shares through excercise of warrants	–	134
Stock option plan, value of employees' services	1,245	3,234
Issue costs of new issues of shares	(1,878)	(2,076)
Balance at September 30	116,350	68,250

Outstanding shares

During the interim period, the number of outstanding shares increased with 1,337 shares from 36,952 to 38,289 shares. This increase took place on the basis of a new issue of shares through the exercise of warrants at an exercise price of SEK 100 per share. The warrants were issued together with shares in conjunction with a unit issue in 2004.

Number of shares and options outstanding

The number of shares and options outstanding as of September 30, 2005 can be classified as follows:

	Opening	Deductions	Additions	Closing
Number of shares	36,952		1,337	38,289
Number of options	5,237	(1,463)	1,451	5,225
Of which:				
- stock options	1,753	(126)	1,036	2,663
- warrants held by subsidiaries for the purpose of hedging social security contributions:	724		333	1,057
- warrants	1,423		82	1,505
- warrants from the unit issue	1,337	(1,337)		0

During the interim period, 200 stock options were allocated to a senior executive. In addition, a total of 92 stock options were allocated to two newly elected board members following a proposal from certain shareholders. The exercise price of these 292 stock options is SEK 13,408 per share and the stock options expire on September 30, 2015. The stock options vest in three equal installments on each of the first three anniversaries of September 30, 2005. The market value per option is estimated, using the Black & Scholes method, at the time of issue to be SEK 8,570 per stock option. An additional 44 employee stock options were allocated to newly employed personnel, within the "Other employees" category under previous stock option plans. During the period, 126 stock options pertaining to individuals who had terminated their employment with the Company were cancelled. In addition, 42 warrants were allocated to two consultants.

In September 2005, Orexo introduced a new employee stock option plan, according to which the board of directors is entitled to allocate a total of 700 options. These options are included in the table above. None of these 700 options had been allocated as of September 30, 2005.

During the period 1,337 shares have been subscribed through the exercise of warrants issued in the unit issue in 2004.

For further information regarding Orexo's stock option plans, see note 8 of the annual report 2004.

6. Cash flow

The group's cash and cash equivalents amounted to SEK 28.6 million per September 30, 2005. Cash flow for the nine month period was SEK –55.7 million. The item described under net sales as "milestone payment" of approximately SEK 50 million will have a positive effect on the cash flow first in the fourth quarter of 2005.

Calculation of adjustments for items not included in cashflow

	January 1–September 30	
	2004	2005
Depreciation and write-downs	2,088	2,164
Estimated costs, employ stock options	1,495	4,134
Profit from sales of subsidiary	–	(8,865)
Other	–	113
	3,583	(2,454)

	September 30	
	2004	2005
Interest, received	256	684
Interest, paid	(79)	(6)

7. Profit from sale of subsidiary

Operating income includes a capital gain of SEK 8.9 million, which has arisen in conjunction with Orexo's disposal of the Company's cell-penetrating peptide technology via the sale of CePep II AB.

EFFECTS OF THE APPLICATION OF IFRS

(Unaudited)

As of January 1, 2005 the Company began compiling its consolidated financial statements in accordance with IFRS. The interim report for the first quarter of 2005 is the first financial report submitted by the Company in accordance with IFRS. Up to 2004, the Company applied the Swedish Financial Accounting Standards Council's recommendations and statements. The transition to IFRS is reported in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards", which means that the date of transition is January 1, 2004. IFRS 1 prescribes that the comparative year, 2004, also be reported in accordance with IFRS. Financial information concerning fiscal years prior to 2004 have not been recalculated. According to the main rule, all applicable IFRS and IAS standards that have become effective and have been approved by the European Union at December 31, 2005 must be applied retroactively.

IFRS 1 specifies twelve specific cases in which companies are entitled to apply exemptions from complete retroactive application, because the International Accounting Standards Board has estimated that the usefulness of retroactive application does not match the cost of application in these cases. Orexo intends to utilize the following three exemptions, while the other exemptions are not considered applicable to Orexo.

1. Business Combinations: Orexo will apply the exemption from the provisions of IFRS 3, Business Combinations, such that IFRS 3 not be applied for acquisitions completed before January 1, 2004. This affects Orexo's acquisition of CePeP AB in 2003.

2. Share-based Payment: Orexo has elected not to apply IFRS 2, and the associated recalculation requirement, for option plans under which allotment occurred prior to November 7, 2002.

3. IAS 39 "Financial Instruments: Recognition and Measurement": Orexo has applied IAS 39 as of January 1, 2005. As permitted by IFRS 1, the Company has elected not to recalculate comparative figures for financial instruments for 2004 in accordance with the principles of IAS 39. A reclassification and revaluation of the assets and liabilities that are to be reported in accordance with IAS 39 was implemented on January 1, 2005. Accordingly, financial instruments are reported in the comparative figures for 2004 based on previously applied accounting principles. Orexo has not noted any differences between the reported values in accordance with IAS 39 and the previously reported values.

The changes in accounting principles that this transition requires and the transitional effects on the consolidated statement of operations and balance sheet are presented below.

EFFECTS OF THE APPLICATION OF IFRS ON THE CONSOLIDATED BALANCE SHEET (Unaudited)

		January 1, 2004 (Transitional date)			December 31, 2004		
(SEK thousands)	Notes	Swedish Accounting Rules	Effect of transition to IFRS	IFRS	Swedish Accounting Rules	Effect of transition to IFRS	IFRS
ASSETS							
Fixed assets							
Intangible fixed asset		6,520		6,520	4,529		4,529
Goodwill		13,238		13,238	0		0
Tangible fixed assets		1,984		1,984	2,277		2,277
Financial fixed assets		2,405		2,405	2,405		2,405
		24,147		**24,147**	**9,211**		**9,211**
Current assets							
Inventories		1,357		1,357	1,419		1,419
Current receivables	a	4,166	(307)	3,859	11,147	(4,342)	6,805
Cash and bank balances		15,482		15,482	84,240		84,240
		21,005	(307)	20,698	96,806	(4,342)	92,464
Total assets		**45,152**	**(307)**	**44,845**	**106,017**	**(4,342)**	**101,675**
SHAREHOLDERS' EQUITY							
Equity and reserves attributable to parent company shareholders							
Share capital		3,428		3,428	3,695		3,695
Restricted reserves	a	60,063	383	60,446	97,233	(2,815)	94,418
Accumulated loss	a	(27,609)	(690)	(28,299)	(21,492)	(1,527)	(23,019)
Total shareholders' equity		**35,882**	**(307)**	**35,575**	**79,436**	**(4,342)**	**75,094**
LIABILITIES							
Current liabilities							
Current liabilities, interest-free		9,270		9,270	26,581		26,581
Total liabilities		9,270		9,270	26,581		26,581
Total shareholders' equity and liabilities		**45,152**	**(307)**	**44,845**	**106,017**	**(4,342)**	**101,675**

EFFECTS OF THE APPLICATION OF IFRS ON THE CONSOLIDATED BALANCE SHEET (cont.) (Unaudited)

		September 30, 2004 (Non audited)		
(SEK thousands)	Notes	Swedish Accounting Rules	Effect of transition to IFRS	IFRS
ASSETS				
Fixed assets				
Intangible fixed asset		5,027		5,027
Goodwill	b	11,110	2,127	13,237
Tangible fixed assets		2,409		2,409
Financial fixed assets		2,405		2,405
		20,951	**2,127**	**23,078**
Current assets				
Inventories		2,070		2,070
Current receivables	a	11,625	(5,293)	6,332
Cash and bank balances		111,235		111,235
		124,930	(5,293)	119,637
Total assets		**145,881**	**(3,166)**	**142,715**
SHAREHOLDERS' EQUITY				
Equity and reserves attributable to parent company shareholders				
Share capital		3,695		3,695
Restricted reserves	a	95,354	(4,113)	91,241
Loss brought forward	a,b	20,467	947	21,414
Total shareholders' equity		**119,516**	**(3,166)**	**116,350**
LIABILITIES				
Current liabilities		26,365		26,365
Current liabilities, interest-free		26,365		26,365
Total liabilities				
Total shareholders' equity and liabilities		**145,881**	**(3,166)**	**142,715**

	Notes	January 1, 2004	December 31, 2004	September 30, 2004
Shareholders' equity according to previously applied principles		35,882	79,436	119,516
Share-based payment	a	(307)	(4,342)	(5,293)
Goodwill not amortized after the transition date	b	–	–	2,127
Tax effects of above		–	–	–
Total adjustment of shareholders' equity		(307)	(4,342)	(3,166)
Shareholders' equity according to IFRS		35,575	75,094	116,350

EFFECTS OF THE APPLICATION OF IFRS ON THE CONSOLIDATED STATEMENT OF OPERATIONS FOR 2004 (Unaudited)

		2004		
(SEK thousands)	Notes	Swedish Accounting Rules	Effects of transition to IFRS	IFRS
Net revenues		86,715		86,715
Cost of goods sold		(1,930)		(1,930)
Gross profit		**84,785**		**84,785**
Selling costs	a	(1,803)	(36)	(1,839)
General and administrative costs	a	(24,224)	(414)	(24,638)
Research and development costs	a	(64,011)	(387)	(64,398)
Other operating revenue		672		672
Other operating costs		(368)		(368)
Operating loss		**(4,949)**	**(837)**	**(5,786)**
Interest income		695		695
Interest expenses		(79)		(79)
Other financial items		(10,455)		(10,455)
Loss after financial items		**(14,788)**	**(837)**	**(15,625)**
Tax on the year's income		(1,156)		(1,156)
Net loss		**(15,944)**	**(837)**	**(16,781)**
Loss per shares attributable to parent company shareholders during the year (expressed in SEK)				
-before dilution	c	(450.89)		(474.56)
-after dilution	c	(450.89)		(474.56)

		Operating loss	Loss before taxes	Net loss for the year
Results according to previously applied principles		(4,949)	(14,788)	(15,944)
Share-based payment		(837)	(837)	(837)
Total adjustment of result	**a**	**(837)**	**(837)**	**(837)**
Result according to IFRS		**(5,786)**	**(15,625)**	**(16,781)**

EFFECTS OF THE APPLICATION OF IFRS ON THE CONSOLIDATED STATEMENT OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 (Unaudited)

		January 1, 2004 – September 30, 2004 (Unaudited)		
(SEK thousands)	Notes	Swedish Accounting Rules	Effects of transition to IFRS	IFRS
Net revenues		85,931		85,931
Cost of goods sold		(1,311)		(1,311)
Gross profit		**84,620**		**84,620**
Selling costs	a	(1,344)	(31)	(1,375)
General and administrative costs	a	(16,816)	(206)	(17,022)
Research and development costs	a, b	(40,021)	1,874	(38,147)
Other operating revenue		620		620
Other operating costs		(334)		(334)
Operating loss		**(26,725)**	**1,637**	**28,362**
Interest income		256		256
Interest expenses		(79)		(79)
Other financial items		0		0
Loss after financial items		**26,902**	**1,637**	**28,539**
Tax on the year's income		(1,156)		(1,156)
Net income		**25,746**	**1,637**	**27,383**
Loss per shares attributable to parent company shareholders during the year (expressed in SEK)				
-before dilution	c	739.20		786.19
-after dilution	c	688.81		732.60

		Operating loss	Loss before taxes	Net loss for the year
Results according to previously applied principles		26,725	26,902	25,746
Share-based payment	a	(490)	(490)	(490)
Goodwill not written off following the date of transition		2,127	2,127	2,127
Total adjustment of result	b	1,637	1,637	1,637
Result according to IFRS		**28,362**	**28,539**	**27,383**

a) Share-based payment

IFRS 2 "Share-based Payment" addresses share-based payments and, for accounting purposes, divides such payment into two main categories: payment made in the form of equity instruments and payment made in cash. With respect to payment made in the form of equity instruments, the recommendation is to be applied for equity instruments allotted after November 7, 2002, and which were not vested before January 1, 2005. For these programs, the fair value of the benefit accrued over the vesting period is to be expensed.

The Company issued to its employees, free of charge, stock options during the period 2002-2004. Of these stock options, one third of the allotment was vested on each of the first three anniversaries following their allotment,

assuming that the holder was still an Orexo employee on this date. The fair value on issue of these programs amounted to 6,489. The value of such stock options were previously reported in accordance with the real value method (the difference between the exercise price of the stock option and the market value of the share). Such options were reported as assets and they increased restricted reserves at the start of the programs and were then expensed over the vesting period, which means that the value of the reported asset was reduced as the options were vested.

The effect on shareholders' equity in connection with the transition to IFRS on January 1, 2004 amounted to a reduction of the accumulated loss by 690, and an increase in restricted reserves by 383. The transition also meant that the remaining previously reported restricted reserves and prepaid personnel costs were reduced by 307. The reported result after tax for 2004 was reduced by 837, of which selling expenses accounted for 36, administrative expenses for 414 and research and development costs for 387. In accordance with the Swedish accounting rules, share-based payment according to this type of stock option plans were not reported as a cost in the income statement, other than at the real value on the date of issue. These adjustments result from the fact that under Swedish GAAP Orexo reported costs for stock option plans using the real value at the time the options were issued, whereas IFRS requires that Orexo record these costs using the market value of the options (e.g. using the Black & Scholes model) at the time of issue. According to both Swedish GAAP and IFRS, such costs are distributed over the vesting period for the options.

b) Goodwill and other intangible assets

IFRS 3 "Business Combinations" requires that goodwill and other intangible assets with an indefinite useful life no longer be amortized but instead be subject to impairment testing, first in connection with the transition to IFRS on January 1, 2004 and, second, annually or more often if there are any indications of a decline in value. Such an asset is to be impaired if the reported value exceeds the recoverable value. The Company conducted such impairment tests at January 1, 2004 and at December 31, 2004. The recoverable value is equal to the value in use. In the impairment test on January 1, 2004, the value of use was calculated in accordance with the cash flow method based on anticipated future revenues and costs for the technology during the time period from 2004 to 2024, which is the expected service life of the patents. Factored into that calculation is the likelihood of project phases and a discounting factor of 10%.

The impairment test conducted on December 31, 2004 showed a need for impairment. The impairment was attributable to goodwill from the acquisition of the subsidiary CePeP AB. Since Orexo has decided to focus on other technologies, this technology is not expected to generate economic benefits for the Company in the foreseeable future. This strategic change was implemented during the fourth quarter 2004 and resulted in the recognition of an impairment charge. During the first to third quarter of 2004, amortizations according to plan have been recognized in accordance with previous standards. The recoverable value is equal to the value in use, which is calculated in accordance with the cash flow method, based on anticipated future revenues and costs. The results of the test mandated that Orexo recognize an impairment charge with respect to the goodwill attributable to CePeP AB against the income statement item research and development.

In accordance with Swedish accounting principles, all intangible assets, including goodwill, are amortized over an estimated period in use. This change does not affect shareholders' equity on the date of transition, because goodwill amortization prior to January 1, 2004 is not to be reversed. Due to the impairment posted on December 31, 2004, there is no amortization to be reversed for 2004 either, although there was amortization during the first to third quarters of 2004, which is being reversed.

c) Earnings per share in accordance with IFRS for fiscal year 2004

Result used for calculating earnings per share before and after dilution (SEK thousands)	(16,781)
Average numbers of shares before dilution	35,361
Adjustment for warrants	2,545
Average number of shares after dilution	37,906

d) Classification of preferred share capital

The Company has preference shares outstanding. Based on IFRS 32, all of the preference shares issued by Orexo constitute shareholders' equity.

SPECIAL PURPOSE AUDIT REPORT ON THE PRELIMINARY IFRS FINANCIAL INFORMATION

To the Board of Directors of Orexo AB (publ)

We have audited the accompanying preliminary special purpose IFRS balance sheet of Orexo AB as at 31 December 2004, and the related statements of income, cash flows and of changes in shareholders' equity for the year then ended (hereinafter referred to as "special purpose financial information"). This special purpose financial information is the responsibility of the Company's board of directors and managing director. It has been prepared as part of the company's conversion to International Financial Reporting Standards (IFRS). Our responsibility is to express an opinion on this special purpose financial information based on our audit.

We conducted our audit in accordance with Auditing Standards in Sweden (Sw. Revisionsstandarder i Sverige). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the special purpose financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special purpose financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the special purpose financial information. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the special purpose financial information as at 31 December 2004 has been prepared, in all material respects, in accordance with the basis set out in Note 1 and 2, which describes how IFRS have been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at December, 31 2005.

Without qualifying our opinion, we draw attention to the fact that Note 1 and 2 explains why there is a possibility that the accompanying special purpose financial information may require adjustment before constituting the final comparative 2004 IFRS figures. Moreover, we draw attention to the fact that, under IFRS, only a complete set of financial statements comprising a balance sheet, income statement, statement of changes in equity, and cash flow statement, together with comparative financial information and explanatory notes, can provide a fair presentation of the company's financial position, results of operations, and cash flows in accordance with IFRS.

Uppsala October 19, 2005

Öhrlings PricewaterhouseCoopers AB

Leonard Daun

CONSOLIDATED BALANCE SHEET BASED ON IFRS

(SEK thousands)	Notes	Dec. 31, 2004
ASSETS		
Fixed assets		
Tangible fixed assets		
Equipment, machinery and computers	6	2,277
Intangible fixed assets		
Patents and rights	7	4,529
Goodwill	8	0
Total intangible fixed assets		**4,529**
Financial fixed assets		
Other long-term receivables	9	2,405
Total financial fixed assets		2,405
Total fixed assets		**9,211**
Current assets		
Inventories	10	1,419
Current receivables		
Accounts receivable and other receivables	11	6,805
Cash and bank balances	12	84,240
Total current assets		92,464
Total assets		**101,675**
SHAREHOLDERS' EQUITY AND LIABILITIES		
Capital and reserves attributable to Parent Company's shareholders		
Share capital	13	3,695
Statutory reserve	13	204
Share premium reserves	13	94,214
Accumulated deficit		(23,019)
Total shareholders' equity		**75,094**
Current liabilities		
Accounts payable and other liabilities	14	26,581
Total shareholders' equity and liabilities		**101,675**
Pledged assets and contingent liabilities		
Pledged assets	15	2,500
Contingent liabilities	16	1,550

CHANGES IN GROUP SHAREHOLDERS' EQUITY BASED ON IFRS

	Attributable to Parent company's shareholders				
(SEK thousands)	**Share capital**	**Statutory reserve**	**Share premium reserve**	**Accumulated profit**	**Total equity**
Opening balance, January 1, 2004	3,428	204	60,242	(28,299)	35,575
Net loss for the year				(16,781)	(16,781)
Allocation of the net loss for the previous year			(22,061)	22,061	0
Stock option plan:					
– value of employees' service			2,275		2,275
– payments of issued shares	267		53,758		54,025
Closing balance, December 31, 2004	**3,695**	**204**	**94,214**	**(23,019)**	**75,094**

CONSOLIDATED STATEMENT OF OPERATIONS BASED ON IFRS

(SEK thousands)	Notes	2004
Sales revenues	17	86,715
Cost of goods sold		(1,930)
Gross profit		**84,785**
Selling expenses	18	(1,839)
Administrative expenses	18,19,21	(24,638)
Research and development costs	18	(64,398)
Other operating income	20	672
Other operating expenses	18,20	(368)
Operating loss		**(5,786)**
Result from financial investments		
Interest income and similar items		695
Interest expense and similar items		(79)
Other financial expenses	22	(10,455)
Loss after financial items		**(15,625)**
Tax on profit for the year	23	(1,156)
Net loss for the year		**(16,781)**
Loss per share attributable to Parent Company's shareholders during the year (in SEK)		
– before dilution	25	(474.56)
– after dilution	25	(474.56)

CONSOLIDATED CASH FLOW STATEMENT BASED ON IFRS

(SEK thousands)	Notes	2004
OPERATING ACTIVITIES		
Loss before tax	27	(15,625)
Tax paid		(1,156)
Adjustment for items not included in cash flow	28	18,879
Cash flow from operating activities, before changes in working capital		**2,098**
Changes in working capital:		
Accounts receivable		(319)
Other current receivables		(2,629)
Inventories		(62)
Current liabilities		16,818
Cash flow from current operations		**15,906**
INVESTING ACTIVITIES		
Acquisition of machinery and equipment		(1,120)
Cash and bank balances from acquisition of subsidiaries		0
Cash flow after investing activities		**14,786**
FINANCING ACTIVITIES		
Proceeds from new share issue		53,972
Cash flow after financing activities		**68,758**
CASH FLOW FOR THE YEAR		
Liquid funds at beginning of period		15,482
Change in liquid funds		**68,758**
Liquid funds at end of period	12	**84,240**

NOTES TO THE FINANCIAL STATEMENTS

(Based on IFRS. All amounts are in SEK thousands, unless otherwise stated.)

1. General information

Orexo is a product-oriented drug delivery company focusing on the development of new drugs in areas currently showing major medical needs. Using its broad knowledge platforms in medicine and pharmacology, Orexo works with the further development of existing pharmaceutical substances. New-patented drugs can be developed by combining well-documented pharmaceutical substances with the company's proprietary, patented drug delivery methods and unique expertise in what is referred to as "dry preparations"(such as tablets).

The Parent Company is Orexo AB (publ), with its registered office in Uppsala, Sweden, and the address to the Company's head office is Kungsgatan 109, SE-753 18 Uppsala.

These consolidated financial statements represent the consolidated financial statements presented on page F-3 to F-32, adjusted to IFRS.

1.1 Basis of preparation

This special purpose IFRS financial information is prepared solely to comply with the listing rules of Stockholm Stock Exchange. The financial statements of Orexo AB as at December 31, 2003, were prepared in accordance with Swedish GAAP. These were considered to be the previous GAAP as defined in IFRS 1 for the preparation of the preliminary opening IFRS balance sheet as at January 1, 2004. The company also issued its financial statements as at December 31, 2004 in accordance with Swedish GAAP. Swedish GAAP differs in certain respects from IFRS. In preparing this special purpose financial information management has used its best knowledge of the expected standards and interpretations, facts and circumstances, and accounting policies that will be applied and approved by the EU, when the Company prepares its first full IFRS financial statements as at December 31, 2005.

Although this special purpose financial information is based on management's best knowledge of expected standards and interpretations, and current facts and circumstances, this may change. For example, amended or additional standards or interpretations may be issued by International Accounting Standards Board. Therefore, until the Company prepares its first full IFRS financial statements and establishes its transition date as defined by IFRS 1, the possibility cannot be excluded that the accompanying preliminary IFRS financial information may have to be adjusted.

Reconciliations and descriptions of the adjustments from the Swedish GAAP 2003 and 2004 financial statements to the opening IFRS balance sheet as of January 1, 2004 and 31 December 2004 IFRS equity and profit and loss respectively are provided in Note 2.1 below. Because the Company is converting to IFRS for the first time, no prior period comparative figures are presented in the accompanying special purpose financial information as of December 31, 2004.

2. Summary of key accounting principles

The most significant accounting principles applied in preparing these consolidated financial statements are presented below. These principles have been applied to the recalculated financial statements for 2004 and for the interim financial statements for 2005.

2.1 Basis for the preparation of the reports

The financial statements for the Orexo group have been prepared in accordance with the International Financial Reporting Standards (IFRS). The historical cost convention has been applied in drawing up the consolidated financial statements.

Preparing reports in compliance with IFRS requires the use of a number of calculations that are significant for accounting purposes. Also, it requires that executive management makes certain assessments in the application of the company's accounting principles. The areas that include a high degree of complex appraisals or areas in which assumptions or estimates are of material significance for the consolidated statements are presented in Note 4.

Recalculation of 2004

Application of standards revised in 2003 and new standards issued in 2004

For 2004, the group applied the IFRS as below, which are relevant to the group's operations.

IAS 1 Presentation of Financial Statements
IAS 2 Inventories
IAS 7 Cash Flow Statements
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 Events after the Balance Sheet Date
IAS 12 Income Taxes
IAS 14 Segment Reporting
IAS 16 Property, Plant and Equipment
IAS 17 Leases
IAS 18 Revenue
IAS 19 Employee Benefits
IAS 24 Related Party Disclosures
IAS 27 Consolidated and Separate Financial Statements
IAS 32 Financial Instruments: Disclosure and Presentation
IAS 33 Earnings per Share
IFRS 2 Share-based Payment
IFRS 3 Business combinations
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
IAS 36 Impairment of Assets
IAS 37 Provisions, Contingent Liabilities and Contingent Assets
IAS 38 Intangible Assets

The changes in the accounting principles entailed by this transition and the transition effects on the consolidated statement of operations and balance sheet are presented in the following.

In 12 specific cases, IFRS 1 offers companies the possibility of applying exemptions for complete retroactive application, in which International Accounting Standards Board has deemed that the benefits of retroactive application do not match the cost, see below. Orexo intends to utilize these exceptions.

- Corporate acquisitions and mergers; Orexo has elected to apply the exemption entailing that IFRS 3, Business Combinations, does not need to be applied to acquisitions (CePeP AB) completed before 1 January 2004;
- fair value or revaluation as deemed cost, this exemption is not relevant for Orexo;
- employee benefits, this exemption is not relevant for Orexo;
- cumulative translation differences, this exemption is not relevant for Orexo;
- compound financial instruments, this exemption is not relevant for Orexo;
- assets and liabilities of subsidiaries, associates and joint ventures, this exemption is not relevant for Orexo;
- designation of previously recognized financial instruments, this exemption is not relevant for Orexo;
- share-based payments; Orexo has elected not to apply IFRS 2 and the accompanying recalculation for the stock options plans for which allocation has occurred before November 7, 2002;
- insurance contracts, this exemption is not relevant for Orexo
- decommissioning liabilities included in the cost of property, plant and equipment, this exemption is not relevant for Orexo;

- IAS 32 Financial Instruments: Disclosures and presentation, this standard should be applied for annual periods beginning on or after January 1, 2005. According to IFRS 1, companies that apply this standard do not have to account for comparatives for previous years. Orexo has chosen to utilize this exception. Orexo's judgment is that the introduction of IAS 32 will not materially affect the group's result or position.
- IAS 39 Financial Instruments: Recognition and Measurement, this standard should be applied for annual periods beginning on or after January 1, 2005. According to IFRS 1, companies that apply this standard do not have to account for comparatives for previous years. Orexo has chosen to utilize this exception. Orexo's judgment is that the introduction of IAS 39 will not materially affect the group's result or position.

Certain new accounting standards and IFRIC interpretations have been published that are mandatory for accounting periods on or after January 1, 2005. The group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 6 Exploration for and Evaluation of Mineral Assets
The group does not have any exploration and evaluation assets. This standard will not affect the group's financial statement.

IFRS 7 Financial Instruments
The standard will affect the disclosures of financial instruments. The standard will be applied as of January 1, 2007.

IFRIC 1 Changes in existing Decommissioning, Restoration and Similar Liabilities
The group have no commitments that IFRIC 1 is applicable to.

IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments
The standard is not applicable to the group.

IFRIC 4 Determining whether an Arrangement Contains a Lease
IFRIC 4 is applicable to annual periods beginning on or after January 1, 2006. The group has not elected to adopt IFRIC 4 early. It will apply IFRIC 4 in its 2006 financial statements and the IFRIC 4 transition provision. The group will therefore apply IFRIC 4 on the basis of facts and circumstances that existed at January 1, 2005. The implementation of IFRIC 4 is not expected to change the accounting for any of the group's current arrangements.

IFRIC 5 Decommissioning, Restoration and Environmental Rehabilitation Funds
The standard is not applicable to the group.

IFRIC 6 Liabilities arising from Participating in a Specific Market
The standard is not applicable to the group.

IAS 19 Employee benefits
IAS 19 was amended in December of 2004. The amendments are applicable to annual periods after January 1, 2006. As the group only holds defined contribution plans there will be no affect on the financial statement other than the extended disclosure demands.

IAS 39 Financial instruments: Recognition and measurement
IAS 39 is for a first time adopter that applies the exemption in IFRS 1 applicable to periods from 2005. The application of IAS 39 will have an effect on the accounting for financial instruments.

Financial instruments reported in the balance sheet include other financial receivables, accounts receivable, accounts payable and loan liabilities. The market value of the financial instruments is calculated on the basis of the current market listing on the closing date. For other financial instruments, for which the market value is not listed, the market value is deemed to comply with the book value.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either: (1) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); (2) hedges of highly probable forecast transactions (cash flow hedges); or (3) hedges of net investments in foreign operations.

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transaction are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of operations, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the statement of operations.

Amounts accumulated in equity are recycled in the statement of operations in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the statement of operations. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of operations.

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in equity; the gain or loss relating to the ineffective portion is recognized immediately in the statement of operations.

Gains and losses accumulated in equity are included in the statement of operations when the foreign operation is disposed of.

(d) Derivatives that do not quality for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the statement of operations.

(e) Accounts receivable

Accounts receivable are reported as current assets in the amount expected to be paid, after deductions for individually assessed doubtful accounts receivable.

(f) Financial receivables

Financial receivables acquired for long-term holding are reported at their acquisition value after deductions for accumulated write-downs if an identified decline in value is deemed to be persistent.

(g) Loan liabilities

Loan liabilities are reported initially at the amount received after deductions for transaction costs. If the reported amount differs from the amount that should be repaid on the maturity date, the difference is distributed over a period of time as interest expense or interest income across the term of the loan. By this means, the reported amount and the amount to be repaid comply on the maturity date.

The reporting of financial liabilities ceases only when the liabilities have been settled through repayment or that they are waived.

All transactions are reported on the closing date.

(h) Transaction exposure

Accounts receivable and accounts payable in foreign currency are valued at the closing day rates. Currency hedging transactions covering future flows in foreign currency affect earnings in pace with the reporting of the hedged receivables and liabilities in the balance sheet. In this context, hedging transactions are valued at the closing day rate and the revaluation is reported in operating income.

(i) Netting of financial receivables and financial liabilities

An asset and a financial liability are netted and reported in a net amount in the balance sheet only when legal netting rights exist and a settlement in a net amount is deemed to occur or when a simultaneous sale of the asset and settlement of the liability is deemed to occur.

Orexo has chosen not to apply these standards prematurely but will apply the applicable standards from the transition date of the standard. Orexo's judgment is that a premature application would not materially affect the company's result or position.

EFFECTS OF THE APPLICATION OF IFRS ON THE CONSOLIDATED BALANCE SHEET

(SEK thousands)	Notes	January 1, 2004 (Transitional date) Swedish Accounting Rules	Effect of transition to IFRS	IFRS	December 31, 2004 Swedish Accounting Rules	Effect of transition to IFRS	IFRS
ASSETS							
Fixed assets							
Intangible fixed asset		6,520		6,520	4,529		4,529
Goodwill		13,238		13,238	0		0
Tangible fixed assets		1,984		1,984	2,277		2,277
Financial fixed assets		2,405		2,405	2,405		2,405
		24,147		24,147	9,211		9,211
Current assets							
Inventories		1,357		1,357	1,419		1,419
Current receivables	a	4,166	(307)	3,859	11,147	(4,342)	6,805
Cash and bank balances		15,482		15,482	84,240		84,240
		21,005	(307)	20,698	96,806	(4,342)	92,464
Total assets		**45,152**	**(307)**	**44,845**	**106,017**	**(4,342)**	**101,675**
SHAREHOLDERS' EQUITY							
Equity and reserves attributable to parent company shareholders							
Share capital		3,428		3,428	3,695		3,695
Restricted reserves	a	60,063	383	60,446	97,233	(2,815)	94,418
Accumulated loss	a	(27,609)	(690)	(28,299)	(21,492)	(1,527)	(23,019)
Total shareholders' equity		**35,882**	**(307)**	**35,575**	**79,436**	**(4,342)**	**75,094**
LIABILITIES							
Current liabilities							
Current liabilities, interest-free		9,270		9,270	26,581		26,581
Total liabilities		9,270		9,270	26,581		26,581
Total shareholders' equity and liabilities		**45,152**	**(307)**	**44,845**	**106,017**	**(4,342)**	**101,675**

	Notes	January 1, 2004	December 31, 2004
Shareholders' equity according to previously applied principles		35,882	79,436
Share-based payment	a	(307)	(4,342)
Goodwill not amortized after the transition date	b	–	–
Tax effects of above		–	–
Total adjustment of shareholders' equity		(307)	(4,342)
Shareholders' equity according to IFRS		35,575	75,094

EFFECTS OF THE APPLICATION OF IFRS ON THE CONSOLIDATED STATEMENT OF OPERATIONS FOR 2004

(SEK thousands)	Notes	2004 Swedish Accounting Rules	Effects of transition to IFRS	IFRS
Net revenues		86,715		86,715
Cost of goods sold		(1,930)		(1,930)
Gross profit		**84,785**		**84,785**
Selling costs	a	(1,803)	(36)	(1,839)
General and administrative costs	a	(24,224)	(414)	(24,638)
Research and development costs	a	(64,011)	(387)	(64,398)
Other operating revenue		672		672
Other operating costs		(368)		(368)
Operating loss		**(4,949)**	**(837)**	**(5,786)**
Interest income		695		695
Interest expenses		(79)		(79)
Other financial items		(10,455)		(10,455)
Loss after financial items		**(14,788)**	**(837)**	**(15,625)**
Tax on the year's income		(1,156)		(1,156)
Net loss		**(15,944)**	**(837)**	**(16,781)**
Loss per share attributable to Parent Company's shareholders during the year (in SEK)				
– before dilution	c	(450.89)		(474.56)
– after dilution	c	(450.89)		(474.56)

(SEK thousands)		Operating Loss	Loss before taxes	Net Loss for the Year
Loss according to previously applied principles		(4,949)	(14,788)	(15,944)
Share-based payments		(837)	(837)	(837)
Total adjustment of loss	a	(837)	(837)	(837)
Net loss according to IFRS		**(5,786)**	**(15,625)**	**(16,781)**

a) Share-based payment

IFRS 2 "Share-based Payment" addresses share-based payments and, for accounting purposes, divides such payment into two main categories: payment made in the form of equity instruments and payment made in cash. With respect to payment made in the form of equity instruments, the recommendation is to be applied for equity instruments allotted after November 7, 2002, and which were not vested before January 1, 2005. For these programs, the fair value of the benefit accrued over the vesting period is to be expensed.

The Company issued to its employees, free of charge, stock options during the period 2002-2004. Of these stock options, one third of the allotment was vested on each of the first three anniversaries following their allotment, assuming that the holder was still an Orexo employee on this date. The fair value on issue of these programs amounted to 6,489. The value of such stock options were previously reported in accordance with the real value method (the difference between the exercise price of the stock option and the market value of the share). Such options were reported as assets and they increased restricted reserves at the start of the programs and were then expensed over the vesting period, which means that the value of the reported asset was reduced as the options were vested.

The effect on shareholders' equity in connection with the transition to IFRS on January 1, 2004 amounted to a reduction of the accumulated loss by 690, and an increase in restricted reserves by 383. The transition also meant that the remaining previously reported restricted reserves and prepaid personnel costs were reduced by 307. The reported result after tax for 2004 was reduced by 837 of which selling expenses accounted for 36, administrative expenses for 414 and research and development costs for 387. In accordance with the Swedish accounting rules, share-based payment according to this type of stock option plans were not reported as a cost in the income statement, other than at the real value on the date of issue. These adjustments result from the fact that under Swedish GAAP Orexo reported costs for stock option plans using the real value at the time the options were issued, whereas IFRS requires that Orexo record these costs using the market value of the options (e.g. using the Black & Scholes model) at the time of issue. According to both Swedish GAAP and IFRS, such costs are distributed over the vesting period for the options.

b) Goodwill and other intangible assets

IFRS 3 "Business Combinations" requires that goodwill and other intangible assets with an indefinite useful life no longer be amortized but instead be subject to impairment testing, first in connection with the transition to IFRS on January 1, 2004 and, second, annually or more often if there are any indications of a decline in value. Such an asset is to be impaired if the reported value exceeds the recoverable value. The Company conducted such impairment tests at January 1, 2004 and at December 31, 2004. The recoverable value is equal to the value in use. In the impairment test on January 1, 2004, the value of use was calculated in accordance with the cash flow method based on anticipated future revenues and costs for the technology during the time period from 2004 to 2024, which is the expected service life of the patents. Factored into that calculation is the likelihood of project phases and a discounting factor of 10%.

The impairment test conducted on December 31, 2004 showed a need for write-down requirement. The impairment was attributable to goodwill from the acquisition of the subsidiary CePeP AB. Since Orexo has decided to focus on other technologies, this technology is not expected to generate economic benefits for the Company in the foreseeable future. During the first to third quarter of 2004, amortizations according to plan have been recognized in accordance with previous standards. This strategic change was implemented during the fourth quarter 2004 and resulted in the recognition of an impairment charge. The recoverable value is equal to the value in use, which is calculated in accordance with the cash flow method, based on anticipated future revenues and costs. The results of the test mandated that Orexo recognize an impairment charge with respect to the goodwill attributable to CePeP AB against the income statement item research and development.

In accordance with Swedish accounting principles, all intangible assets, including goodwill, are amortized over an estimated period in use. This change does not affect shareholders' equity on the date of transition, because goodwill amortization prior to January 1, 2004 is not to be reversed. Due to the impairment posted on December 31, 2004, there is no amortization to be reversed for 2004 either, although there was amortization during the first to third quarters of 2004, which is being reversed.

c) Earnings per share in accordance with IFRS for fiscal year 2004

Result used for calculating earnings per share before and after dilution (SEK thousands)	(16,781)
Average numbers of shares before dilution	35,361
Adjustment for warrants	2,545
Average number of shares after dilution	37,906

d) Classification of preferred share capital

The Company has preference shares outstanding. Based on IFRS 32, all of the preference shares issued by Orexo constitute shareholders' equity.

2.2 Consolidated financial information

(a) Subsidiaries

Subsidiaries are all entities (including special-purpose entities) in which the group is entitled to shape financial and operational strategies in a manner that usually accompanies a shareholding amounting to more than half of the voting rights. The existence and effect of potential voting rights that are currently possible to utilize or convert are taken into consideration in determining whether the group exercises decisive influence over another company. Subsidiaries are included in the consolidated financial statements from the date on which decisive influence was transferred to the group. They are excluded from the consolidated financial reports from the date on which decisive influence ceases.

The purchase method is used in reporting group acquisitions of subsidiaries. The purchase cost of an acquisition consists of the real value of the assets provided as compensation, issued equity instruments and liabilities arising or taken over on the transfer date, plus expenses directly attributable to the acquisition. Identifiable acquired assets and liabilities taken over and contingent liabilities in a corporate acquisition are initially valued at the real value on the acquisition date, irrespective of the scope of any minority interests. The surplus consisting of the difference between the acquisition value and the real value of the group's share of identifiable, acquired net assets is reported as goodwill. If the acquisition value is less than the real value of the acquired subsidiary's net assets, the difference is reported directly in the statement of operations (point 2.6).

Intra-group transactions and balance sheet items as well as unrealized gains on transactions among group companies are eliminated. Unrealized losses are also eliminated, unless the transaction serves as proof that a write-down requirement exists for the transferred asset. In certain cases, accounting principles for subsidiaries have been amended to guarantee consistent application of the group's principles.

2.3 Segment reporting

Primary segments

The group pursues the development and sale of drugs. Operations constitute a single operating segment and thus no reporting for primary segments has been drawn up.

Secondary segments

The group's operations are conducted primarily in three geographic areas. In addition, no individual country or area contributes more than 10% of the total consolidated sales. The sales figures are based on the country in which the customer is active. There are no sales among the geographic areas.

2.4 Translation of foreign currencies

(a) Functional currency and reporting currency

Items included in the financial reports of the various units in the group are valued in the currency used in the financial environment in which each company is primarily active (functional currency). SEK is used in the consolidated financial statements, and is also the Parent Company's functional currency and reporting currency.

(b) Transactions and balance sheet items

Transactions in foreign currency are translated to the functional currency in accordance with the exchange rates applying on the transaction date. Exchange rate gains and losses arising from the payment of such transactions and in the translation of monetary assets and liabilities in foreign currency at the closing day are reported in the statement of operations among other operating income and other operating expenses. Exceptions are when the transactions represent hedging that fulfills the conditions for hedging accounting of cash flow or of net investments, when gains/losses are reported in shareholders' equity. Such hedging has not been undertaken during the year.

2.5 Tangible fixed assets

Tangible fixed assets are reported at their acquisition value, less depreciation. Expenses incurred in improving asset performance beyond the original level, add to the asset's reported value. Expenses incurred in repairs and maintenance are reported as costs.

Tangible fixed assets are depreciated over the estimated service life of the asset. When the depreciation amount for assets is determined, the asset's residual value is taken into account in certain cases.

Straightline depreciation methods are used for all types of tangible fixed assets. The following depreciation periods are applied:

Machinery and equipment	5 years
Computers	3 years

In cases in which an asset's reported value exceeds its estimated recoverable value, the asset is immediately written down to the recoverable amount.

Asset residual value and service life are reviewed on each closing date and adjusted when required.

Gains and losses from sales are determined by means of a comparison between the sales proceeds and reported value and are reported in the statement of operations.

2.6 Intangible assets

(a) Goodwill

Goodwill consists of the amount by which the acquisition value exceeds the real value of the group's share of the acquired subsidiary's identifiable net assets on the acquisition date. Goodwill arising from the acquisition of subsidiaries is reported as intangible assets. Goodwill is reviewed annually to identify any write-down requirements and is reported at the acquisition value less the accumulated write-down. Gains or losses arising from the sale of a unit include the remaining reported value of the goodwill pertaining to the divested unit.

In cases in which goodwill is attributable to a group of assets, for which a write-down requirement is deemed to exist, the write-down amount is initially distributed among goodwill and subsequently among other assets in proportion to their reported values.

(b) Patents and rights

Patents and rights are reported at their acquisition value. Patents and rights have a limited service life and are reported at the acquisition value less the accumulated depreciation. Depreciation is applied linearly in an effort to distribute the cost of patents and rights across their estimated service life (five years).

2.7 Write-downs

Assets with an indeterminate service life are not written off but are instead reviewed annually to identify any write-down requirement. Assets written off are assessed in terms of the value decline when events or conditions indicate that the reported value is perhaps not recoverable. A write-down is applied in the amount by which the assets' reported value exceeds its recoverable amount. The recoverable amount is the higher of the asset's real value less selling expenses and value in use.

2.8 Inventories

Inventories are valued on the basis of first-in – first-out principle and at the acquisition value. Proprietary finished or semi-finished products are valued at the products' manufacturing costs. Individual obsolescence appraisals have been made of the company's products.

2.9 Accounts receivable

Accounts receivable are initially valued at their real value and after that to the accrued purchase value applying the effective interest method, less any provisions for value losses. A provision for value loss in accounts receivable is done when there is objective evidence that the group will not receive all the amounts due pursuant to the original conditions underlying the receivables. The size of the provision is determined by the asset's reported value and the present value of the estimated prospective cash flows, discounted by using a real rate of interest. The provision amount is reported in the statement of operations.

2.10 Liquid funds

Liquid funds include cash, bank balances and other current investments that mature within three months from the day of the purchase.

2.11 Share capital

Common shares and preference shares are classified as shareholders' equity.

Transaction costs that may be directly attributed to the issuance of new shares or options are reported in net form after tax in shareholders' equity as a deduction from the issue proceeds.

2.12 Deferred tax

Reported income taxes include tax that is to be paid or received for the current year, adjusted for previous years' current tax and changes in deferred tax. The valuation of all tax liabilities/receivables is done at the nominal amount and is conducted in accordance with the tax rules and tax rates that have been decided or have been announced and are likely to be effected. For items reported in the statement of operations, the accompanying tax effects are also thus reported. Tax effects of items that are reported directly against shareholders' equity are reported against shareholders' equity. Deferred tax is calculated in accordance with the balance sheet method on all temporary differences that arise between reported values of assets and liabilities and their value for tax purposes.

No value of the loss carry-forwards has been reported in the balance sheet, since it is difficult to assess when the loss carry-forwards can be used.

2.13 Employee benefits

(a) Pension obligations

The group has defined-contribution pension plans. The pension plans are financed by means of payments to insurance companies. A defined-contribution pension plan is a pension plan according to which the group pays the fixed fees to a separate legal entity. When the fees are paid, the group has no further payment obligations.

Fees are reported as personnel expenses when they mature for payment. Prepaid fees are reported as an asset.

(b) Share-related benefits

Share-related payment (stock options) is reported as an expense during the vesting period based on the fair value of the stock options on the initial date for each option plan. Payroll overhead on the benefits that are expected to arise in conjunction with value increases are reported over the vesting period.

On each closing date, the company reviews its assessments of how may shares are expected to be redeemable. Any effects of the review on the original assessment is reported in the statement of operations, distributed across the remainder of the vesting period and the corresponding adjustments are made in shareholders' equity.

(c) Severance payments

Employment contracts may be terminated with a notice period of between three and 12 months. The notice period applies, with certain exceptions, irrespective of which party terminates the contract. The main exception is that Orexo must always take into account any statutory longer notice periods. Monthly salary is to be paid throughout the entire notice period. There are no additional agreements concerning severance payments.

2.14 Provisions

Provisions for environmental restoration measures, restructuring costs and legal demands are reported when the group has an existing legal or normal obligation as a result of previous events, and for which it is more likely than not that an outflow of resources will be required to settle the undertaking, and the amount has been calculated in a reliable manner. Provisions for restructuring include costs for the termination of leasing agreements and for redundancy payments. No provision is made for future operating losses.

If there is a number of similar undertakings, an assessment is made of the probability that an outflow of resources will be required in the overall settlement for the entire group of undertakings. A provision is also reported if the probability of an outflow pertaining to special items in this group of undertakings is modest.

2.15 Revenue recognition

Revenues comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminated sales within the group. Revenue is recognized as follows:

Sales of goods

Revenue from sales of goods is reported on the date of delivery that is the date on which ownership rights are transferred to the customer, who thereby assumes the financial risk.

License income

Orexo's license agreements usually include a lump-sum payment on the signing of the agreement and license fees without repayment obligation and/or milestone payment. A license agreement permits Orexo's partners to sell the Company's patent-protected products within a particular geographic area over a certain period. A development milestone payment is a payment from a partner to Orexo in conjunction with Orexo attaining the development milestone target in the agreement. License fees and milestone payments are reported as revenue on the basis of the financial implications of each license agreement. In the case that a lump-sum payment or a milestone payment includes more than one delivery then the income will be allocated to each part delivery based on fair value. In the case of agreements in which the licensee is responsible for actions or the work that leads to the fulfillment of each milestone target, revenue recognition is done when each milestone is totally fulfilled. Examples of such milestone targets are the granting of patents, termination of clinical trials, approval of registration and achievement of certain sales targets. A prerequisite for revenue recognition of such agreements is that Orexo's future undertakings and costs for the fulfillment of the agreement are deemed to be insignificant. No development milestone payment is reported before Orexo has completed each task associated with the development milestone target.

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

2.16 Leasing

When leasing agreements entail that the group, as leaseholder, essentially utilizes the financial benefits and carries the financial risks attributable to the leasing object, the object is reported as a fixed asset in the consolidated balance sheet. Corresponding commitments to pay leasing fees in the future are reported as a liability.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operation leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of operations on a straight-line basis over the period of the lease.

3. Research and development

Expenditure incurred in research and development is expensed immediately. Expenditure for development projects is capitalized when it is technically possible to complete it, the expenses attributable to the asset may in a reliable way be calculated and it may in a reliable way be documented that these expenses are expected to generate future financial benefits. Other development costs are expensed as they arise. Development costs that were previously expensed are not capitalized as assets in later periods.

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Revenue recognition

Orexo's license agreements usually include a lump-sum payment on the signing of the agreement and license fees without repayment obligation and/or milestone payments. A license agreement permits Orexo's partners to sell the Company's patent-protected products within a particular geographic area over a certain period. A development milestone payment is a payment from a partner to Orexo in conjunction with Orexo attaining the development milestone target in the agreement. License fees and milestone payments are reported as revenue on the basis of the financial implications of each license agreement.

In the case of agreements in which the licensee is responsible for actions or the work that leads to the fulfillment of each milestone target, revenue recognition is done when Orexo has completed each task associated with the milestone target. Examples of such milestone targets are the granting of patents, termination of clinical trials, approval of registration and achievement of certain sales targets. A prerequisite for revenue recognition of such agreements is that Orexo's future undertakings and costs for the fulfillment of the agreement are deemed to be insignificant. No development milestone payment is reported before Orexo has completed each task associated with the development milestone target. Orexo has during 2004 received a lump-sum payment on the signing of the license agreement with Endo Pharmaceuticals for the sale of OX 20 on the North American market.

The payment applied to a license fee as well as a payment for service related to technology transfer. All of the license income has been recognized in 2004 whereas the revenue related to the technology transfer are recognized over the time the technology transfer assistance actually occurs. Of the total lump-sum payment from Endo Pharmaceuticals of SEK 74.5 million, SEK 71.5 million was reported as revenue obtained during 2004.

(b) Decline in asset value

In the case of all assets with a long service life, including goodwill, an annual assessment is made of the asset's decline in value or when there is some indication that the book value of the asset exceeds the recoverable amount. An asset whose value has declined shall be written down to the recoverable amount that the asset is deemed to have on the basis of available information. The recoverable value is defined as the higher of the net sales value and value in use. Value in use is estimated by means of a discounted cash flow method based on future anticipated incoming and outgoing payments. Significant differences in the assessment of future anticipated cash flow and the discount rate used may result in different valuations of an asset.

Assets with a long service life, with the exception of goodwill, are written off linearly over the anticipated service period. The service life for tangible fixed assets is deemed to between three and five years for computers, machinery and equipment. The service life is normally deemed to be five years for intangible assets. The company undertakes continual reviews of the service life for all significant assets.

Goodwill, relating to the acquisition of the cell penetrating technology, have been written-down with SEK 13.3 million during the year since Orexo chose to focus on other technologies, this technology is not expected to generate financial advantages in the foreseeable future.

(c) Research and development

Costs attributable to research are expensed as they arise. Costs attributable to development projects are reported as intangible assets in the balance sheet in cases in which these costs in the future may be expected to generate financial benefits. Other development costs are expensed as they arise. Development costs that are expensed are not reported as an asset in subsequent periods.

Orexo's judgment is that the development costs that have been reported during 2004 not to any part can be reported as an asset because that they do not with reliability determine that they fulfil requirements to be capitalized. In order that Orexo on its own could come to carry and internally finance development projects to later clinical phases during coming years, that can entail that part of coming development expenditures can fulfil requirement of to be capitalized.

(d) Deferred taxes

Orexo has significant loss carry-forwards. Those have not been reported at any value because of the uncertainty about when those can be used. Orexo's judgment is that the level of probability that they could be utilized has not been reached.

5. Segment information

The group conducts drug development and research. Operations comprise a single operating segment and thus no reporting for primary segment has been prepared.

Secondary segments – geographic areas

Group operations are conducted primarily in three geographic areas. In addition, no individual country or area contributes more than 10% of total consolidated sales. The sales data are based on the country in which the customer is active. There are no sales among the geographic areas.

	2004
Sales distributed geographically	
Nordic region	2,987
Other EU countries	472
South-East Asia (notably Japan)	11,657
U.S.	71,525
Other countries	74
Total	**86,715**

All assets and investments center on Sweden.

6. Equipment, machinery and computers

	2004
Accumulated acquisition values	
Opening acquisition value	4,822
Purchases	1,222
Sales and scrapping	(442)
Closing accumulated acquisition values	**5,602**
Accumulated depreciation according to plan	
Opening depreciation according to plan	(2,838)
Depreciation according to plan for the year	(806)
Reversed depreciation for sales/scrapping	319
Closing accumulated depreciation according to plan	**(3,325)**
Book value	**2,277**

Depreciation costs of 806 affects research and development costs with 495 and general and administration costs with 311.

Leasing expenses amounting to 827 for the leasing of equipment, machinery and computers are included in the statement of operations.

7. Patents and rights

	2004
Accumulated acquisition values	
Opening acquisition values	10,277
Purchases for the year	
Closing accumulated acquisition values	**10,277**
Accumulated amortization according to plan	
Opening amortization according to plan	(3,757)
Amortization according to plan for the year	(1,991)
Closing accumulated amortization according to plan	**(5,748)**
Book value	**4,529**

Amortization expense for 2004, amounting to 1,991, is included in research and development costs.

8. Goodwill

	2004
Accumulated acquisition values	
Opening acquisition values	14,184
Purchases for the year, goodwill	0
Closing accumulated acquisition values	**14,184**
Accumulated amortization according to plan	
Opening amortization according to plan	(946)
Write-downs for the year	(13,238)
Closing accumulated amortization according to plan	(946)
Closing accumulated amortization according to plan	**(13,238)**
Book value	**0**

Write-down expenses for 2004, amounting to 13,238, are included in research and development costs.

The write-down of consolidated goodwill is attributable to goodwill from the acquisition of the subsidiary CePeP AB. Since the company elected to focus on other technologies, this technology is not expected to generate financial benefits for the group in the foreseeable future. The recoverable value consists of the value in use. Value in use is calculated in accordance with the cash flow method using anticipated revenue and expenses. Since the technology will not be utilized in a foreseeable future the estimated prospective cash flow is zero.

9. Other long-term receivables

Other long-term receivables include the promissory note receivable due from Retson Acquisition AB corp. reg. no. 556582-9164. Collateral: 124,680 A shares and 33,000 B shares in Noster System AB. The nominal value of the promissory note receivable is 9,619, and the accumulated write-down through December 31, 2004 was 7,214, and book value totaled 2,405.

The claim is intended to be kept until maturity, which is February 28, 2005. The write-down of the claim has taken place due to the fact that the value of the shares in Noster Systems AB has decreased correspondingly. The present value of the claim amounts to the book value since payment will be received during 2005.

10. Inventories

	2004
Raw materials	1,311
Finished products	108
Total	**1,419**

The cost of inventories expensed are included in the item cost of goods sold and amounted to SEK 1,930.

11. Accounts receivable and other receivables

	2004
Accounts receivable	1,386
VAT receivable	3,478
Tax receivable	418
Other receivables	517
Prepaid rents	156
Prepaid leasing fees	176
Accrued income interest	18
Other interim receivables	656
Total	**6,805**

The group did not write down any account receivables in 2004.

12. Liquid funds

	2004
Cash and bank balances	54,240
Bank deposits	30,000
Total	**84,240**

The real rate of interest on current investments was 2.02%. These investments have an average maturity of 40 days.

13. Share capital

	Change in number of shares, Parent Company
Number of shares, Jan 1, 2004	**34,278**
New share issue	2,674
Number of shares, Dec 31, 2004	**36,952**

The par value of each share is SEK 100.

As of December 31, 2004, the total number of shares outstanding in the Company was 36,952, of which 19,083 were common shares and 17,869 were preference shares. All shares provide entitlement to one voting right. Preference shares are accompanied by the conditions stated in the Company's articles of association. As a result of an agreement

with a majority of other shareholders, current preference shareholders have pledged – subject to certain conditions – to convert their preference shares to common shares in connection with the listing of the Company's shares on the Stockholm Stock Exchange or other authorized marketplace.

Orexo has two types of preference shares, P1 and P2. Based on IAS 32, the shares are in their entirety equity capital.

Day of issue	P1	P2
2002-04-11	8,830	
2003-08-27	6,365	
2004-08-05		2,674
	15,195	**2,674**

The preference shares, P1 and P2, will with priority over ordinary shares be entitled to an annual dividend of 8% of original issue price for the preference shares P1 and P2 respectively. In addition to this, previous accumulated dividends will be added. In the present situation, no dividend has been paid.

In the event of liquidation of the Company, each preference share (P1 and P2) will have priority over ordinary shares, corresponding to an amount equivalent to the total compensation paid for the relevant preference shares, divided by the total number of relevant preference shares.

During August 2004, the Company conducted a unit issue. The price per unit was SEK 39,223. Each unit consisted of two shares and one option. Each option entitles the holder to subscribe for one new common share in the Company and has a lifetime extending through July 15, 2014. The subscription price will be SEK 19,611.40. If the Company's shares have not become subject to listing on the stock exchange by July 15 2005, notification of subscription shall occur no later than 15 August 2005. The subscription price will then be SEK 100 or, if the share's par value on the date of subscription falls below SEK 100, an amount corresponding to the par value. The total number of units subscribed for in the issue was 1,337, of which options provide entitlement to subscribe for a maximum of 1,337 new shares in the Company.

At the extraordinary general meeting of shareholders in Orexo on July 15, 2004 the board received authorization to decide on a share issue of 10,000 new shares. The authorization applied up until the earliest of the next annual general meeting or the listing of Orexo's shares on a stock exchange or other authorized marketplace. As of December 31, 2004, the shares issued in connection with the unit issue had been issued at a price of SEK 19,611.40 per share.

Share-based incentive program

The Company's cost for vested stock options 2004 were SEK 7.7 million, of which SEK 4.5 million was attributable to general and administration costs, SEK 3.1 million to research and development costs and SEK 0.1 million to selling cost.

The number of shares and warrants outstanding as of December 31, 2004 are allocated as follows:

	Opening balance	Deductions	Additions	Closing balance
Number of shares	34,278		2,674	36,952
Number of warrants	2,020		3,217	5,237
Of which,				
– stock options	1,253		500	1,753
– warrants held by subsidiary as a hedge against social security expenses	559		165	724
– warrants	208		1,215	1,423
– warrants from the unit issue	0		1,337	1,337

Orexo has introduced a incentive program consisting of warrants, and stock options designed to promote the company's long-term interests by motivating and rewarding board members, senior executives, other employees and a number of the company's collaborative and business partners. About 30 people have to date participated in the Company's incentive program since 2002. As of December 31, 2004, within the framework of this program, warrants and stock options entitling the holders to a total of 3,965 new shares in Orexo have been allocated. Ownership rights to the warrants have been transferred on commercial terms to employees or other participants in the incentive program directly through allocation while the stock options are vested in the form of one third of the number of allocated options on each of the first three anniversary dates of the allocation date, provided that the holder remains employed in Orexo on this date. On the date of this annual report, stock options that provide entitlement to a total of 755 new shares in this manner have been vested in the participants in the option plans. See below for a more detailed description of the individual incentive program. The table below shows all warrants and stock options issued in accordance with Orexo's incentive program.

	Ownership			
	Number of securities (Stock options/ Warrants)[1]	Number of shares to which the securities provide entitlement	Subscription price (SEK)	Number of shares and votes[2]
Type of securities				
Stock options 2002	1,013	1,013	2,300	2.4%
Stock options 2003	240	240	3,171	0.6%
Stock options 2004[3]	500	500	4,530	1.2%
Warrants	558	558	2,300	1.3%
Warrants	657	657	4,530	1.6%
Warrants[4]	273	273	9,060	0.6%
Sub-total	**3,241**	**3,241**	-	**7.7%**
Warrants designed for hedging 2002[5]	479	479	2,300	1.1%
Warrants designed for hedging 2003[5]	80	80	3,171	0.2%
Warrants designed for hedging 2004[5]	165	165	4,530	0.4%
Total number of securities in the share-based incentive programs	**3,965**	**3,965**	-	**9.4%**

1) Stock options are vested in an amount of one third each year: calculated from 1 October 2002 for Stock Options 2002, from 1 October 2003 for Stock Options 2003 and from 1 August 2004 for Stock Options 2004.
2) After full dilution through the exercise of warrants.
3) 14 of these warrants have not been allocated.
4) 65 of these warrants are cancelled.
5) Warrants held by Orexo's subsidiary Pharmacall and are designed for cash flow hedging of payroll overhead that may arise via the stock option plans.

The allocation of a total of 486 options in the 2004 stock option plan is as follows: board members, 46 options; President zero options; other senior executives, 210; and other executives, 230 options. The allocation of a total of 1,739 options in Orexo's stock option plan from 2002-2004 is as follows: board members, 92 options; President zero options; other senior executives, 520 options; and other executives, 1,127 options.

Stock Option Plan 2002

During 2002, Orexo implemented a stock option plan encompassing 1,013 call options on warrants for subscription to a total of 1,013 shares in Orexo. These stock options have been awarded without charge to employees and other key individuals. In order ensure delivery of the shares in accordance with the options and as a cash flow hedge for social security expenses that will fall on Orexo when the stock options are utilized, Orexo issued 1,492 warrants for subscription to 1,492 shares in the Company to the wholly owned subsidiary Pharmacall, of which 479 warrants provide entitlement to subscribe for 479 shares, which are meant for hedging purposes.

Request for exercise may be made for one-third of the total number of allotted stock options in each of the three years from the commencement date (October 1, 2002). In cases in which employment ceases during the aforementioned vesting periods, the vested options do not become due for payment. The last day to exercise stock options is December 31, 2012. The subscription price is SEK 2,300 per share. The market value per option was estimated, using the Black & Scholes model, at the end of 2004, to be SEK 14,620. Exercise of the vested options may be made no earlier than the following dates: after December 31, 2010, 360 days after the Company's share is listed on a stock exchange or authorized marketplace or other similar listing, following any bids accepted by the Company to such an extent that the bidder becomes owner of more than 90% of all outstanding shares, or following the approval of a general meeting of shareholders in the Company or by the Company's board to the effect that the requested exercise may be conducted at a date other than that stated in the stipulations.

Stock Option Plan 2003

During 2003, Orexo implemented a second stock option plan encompassing 240 call options on warrants for subscription to a total of 240 shares in Orexo. These stock options have been awarded without charge to employees and other key individuals. In order to ensure delivery of shares in accordance with the options and as a cash flow hedge for social security expenses that will fall on Orexo when the stock options are utilized, Orexo has issued 320 warrants for subscription to 320 shares in the Company to Pharmacall, of which 80 warrants for subscription to 80 shares are allocated for cash flow hedging purposes.

Request for exercise may be made for one-third of the total number of allotted stock options in each of the three years from the commencement date (October 1, 2003). In cases in which employment ceases during the aforementioned vesting periods, the vested options do not become due for payment. The last day to exercise stock options is December 31, 2013. The subscription price is SEK 3,171 per share. The market value per option was estimated, using the Black & Scholes model, at the end of 2004 to be SEK 14,090. Exercise of the vested options may be made no earlier than the following dates: after December 31, 2011, 360 days after the Company's share is listed on a stock exchange or authorized marketplace or other similar listing, following any bids accepted by the Company to such an extent that the bidder becomes owner of more than 90% of all outstanding shares, or following the approval of a general meeting of shareholders in the Company or by the Company's board to the effect that the requested exercise may be conducted at a date other than that stated in the stipulations.

Stock OptionPlan 2004

In July 2004, Orexo's board decided to implement a third stock option plan encompassing 500 call options on warrants for subscription to a total of 500 shares in Orexo, of which 486 have been awarded without charge to employees and other key individuals. In order to ensure delivery of shares in accordance with the options and as a cash flow hedge for social security expenses that will fall on Orexo when the stock options are utilized, Orexo has issued 665 warrants for subscription to 665 shares in the Company to Pharmacall, of which 165 warrants for subscription to 165 shares are allocated for cash flow hedging purposes.

Request for exercise may be made for one-third of the total number of allotted stock options in each of the three years from the commencement date (August 1, 2004). In cases in which employment ceases during the aforementioned vesting periods, the vested options do not become due for payment. The last day to exercise stock options is June 30, 2014. The subscription price is SEK 4,530 per share. The market value per option was estimated, using the Black & Scholes model, at the time of issue in August 2004, to be SEK 13,510 and by the end of 2004 to be SEK 13,275. Important information used in the calculation was a calculated share price of SEK 16,343 a term in accordance with above, the above mentioned exercise price an expected volatility in the share price of 30% and an annual interest of 4.42%.

Exercise of the vested options may be made no earlier than the following dates: after December 31, 2012, 360 days after the Company's share is listed on a stock exchange or authorized marketplace or other similar listing, following any bids accepted by the Company to such an extent that the bidder becomes owner of more than 90% of all

outstanding shares, or following the approval of a general meeting of shareholders in the Company or by the Company's board to the effect that the requested exercise may be conducted at a date other than that stated in the stipulations.

As mentioned above, the social security expenses that can result from exercising the call options in accordance with the three stock option plans have been hedged in terms of cash flow through warrants held by Pharmacall. For accounting purposes, Orexo must report the social security expenses as the fixed market value of the Company's shares increases. Provisions for social security fees are made during the vesting period.

Warrants

During 2002, Orexo issued 558 warrants for subscription to 558 shares in the Company to Pharmacall. Those warrants were transferred to certain individuals, including Håkan Åström, during 2004. Håkan Åström acquired 230 warrants for subscription to 230 shares in the Company for a total purchase price of approximately SEK 414,000, a fair market price in the estimation of the board of directors. The last day for exercising the warrants is December 31, 2012 at a subscription price of SEK 2,300 per share.

In April 2004, Orexo issued another 657 options rights for subscription to 657 shares in Orexo to Pharmacall. Those options were transferred to Zsolt Lavotha along with 289 warrants of the same series that were acquired by Håkan Åström. The total purchase price for these options (657 options rights and 289 warrants) were about SEK 1.1 million, which according to the estimation of the board directors were commercial conditions. Those warrants entitle to subscription for new shares in Orexo between April 1, 2004 and December 12, 2011 at a subscription price of SEK 4,530 per share.

In addition to what is specified above, Orexo issued 273 warrants for subscription for 273 shares in Orexo to Pharmacall in conjunction with the Company's acquisition of CePeP. Of those warrants, 208 were transferred to holders of warrants for CePeP in exchange for warrants in CePeP. Those warrants entitle to subscription for new shares in Orexo through June 1, 2009 at a subscription price of SEK 9,060 per share. See the section "Certain relationships and related party transactions – Acquisition of Kibion and sale of the cell penetrating technology".

Share holders' equity

According to Swedish GAAP, shareholder' equity shall be divided in restricted and unrestricted shareholders' equity. Restricted shareholders' equity is not available for distribution and includes share capital and restricted reserves. Orexo's unrestricted shareholders' equity is negatively and, hence, the Company has no profits available for distribution.

Restricted equity	
Share capital	3,695
Restricted reserves	94,418
Non restricted equity	
Accumulated deficit	(6,238)
Loss for the year	(16,781)

14. Account payable and other liabilities

	2004
Accounts payable	10,067
Employee withholding tax	491
Deduction, payroll overhead	385
Deduction, special employer's contribution	606
Other current liabilities	409
Accrued salaries	1,298
Accrued vacation pay	1,510
Accrued payroll overhead	1,125
Accrued payroll overhead, options	5,495
Other interim liabilities	5,195
Total	**26,581**

15. Pledged assets

	2004
Chattel mortgages for overdraft facility	2,500

16. Contingent liabilities

	2004
Guarantee undertaking, Swedish Customs Authority	50
Supplementary payment for any patents granted	1,500
Total	**1,550**

17. Distribution of revenue

	2004
Sales, products	3,489
Sales, services	140
License revenue	83,086
Total	**86,715**

18. Costs by type of cost

	2004
Raw materials and consumables	2,897
Other external costs	39,080
Personnel costs	35,160
Depreciation and write-downs	16,036
Book value	**93,173**

19. Auditor's fees

	2004
Auditing,	
Öhrlings PricewaterhouseCoopers	1,495
Assignments other than auditing,	
Öhrlings PricewaterhouseCoopers	895
Total	**2,390**

Of the total fees paid to auditors for 2004, amounting to 2,390, 1,904 represents remuneration for auditing in connection with securities issues that were dormant at year-end.

20. Exchange-rate differences

Operating profit includes exchange-rate differences on operating receivables and operating liabilities as follows:

	2004
Other operating revenues	672
Other operating expenses	(368)
Total	**304**

21. Costs of remuneration to employees

	2004
Average number of employees	
Women	14
Men	9
Total	**23**

	2004
Wages/salaries, remuneration and payroll overhead	
Salaries and other remuneration to the board and President	4,879
Salaries and other remuneration to the other employees	13,089
Pension expenses for the board and President	77[1)]
Pension expenses for other employees	2,423[1)]
Payroll overhead for the board and President	1,006
Payroll overhead for other employees	10,251[2)]
Other personnel expenses	3,766
Total	**35,491**

1) Pertains in its entirety to contribution-defined pension plan.
2) Of which, 5,280 pertains to estimated costs for payroll overhead for stock option plan.

Remuneration

Remuneration paid to the board, including the board chairman, is set by the shareholders at the annual general meeting. No additional remuneration has been paid for work in board committees. Remuneration paid to the President and other senior executives as stated on page 75, may be paid in the form of a fixed salary, pension and other benefits.

Orexo is currently not a party to any agreement and has not made any decisions regarding bonuses or other variable remuneration for the Company's employees.

Orexo's remuneration committee consists of Håkan Åström, Johan Christenson and Zsolt Lavotha. During the year, the Committee dealt with and recommended decisions to the board regarding the new option plans for employees and coworkers. In addition, the Committee has dealt with issues involving remuneration paid to the former President. The board has discussed the remuneration committee's proposals and made a decision based on the Committee's recommendations. The remuneration committee held two meetings during 2004.

The total remuneration paid to Orexo's board amounted to SEK 700,000 for the 2004 financial year, of which SEK 400,000 pertained to the board chairman and SEK 300,000 was related to other board members. The board's chairman, Håkan Åström, has also been paid a fee of SEK 400,000 for extra work input within the framework of his position as chairman of the board during the period January to April 2004 in connection with the appointment of the President in accordance with the decision of the Company's remuneration committee and the board.

Two of Orexo's board members, Christer Nyström and Kjell Strandberg have, via partly or wholly owned companies, concluded consulting agreements with Orexo. For additional information, refer to Note 29, "Transactions with related parties".

On April 1, 2004, Zsolt Lavotha was appointed President and group Chief Executive Officer of Orexo. Employment may be terminated by either party with a notice period of 12 months. The agreement does not provide rights to severance pay that exceeds the contractual period of notice. Zsolt Lavotha's monthly salary amounts to SEK 150,000 for 2004. In addition he is entitled to other benefits amounting to about SEK 300,000 annually, including housing and cost compensation. In connection with the appointment of Zsolt Lavotha as the President and CEO of Orexo, he received a signing bonus of SEK 1.5 million. Zsolt Lavotha is not entitled to any pension from Orexo.

Other senior executives refer to the Company's management group, excluding the President. The total remuneration for the 2004 financial year paid to other senior executives in Orexo amounted to SEK 8.1 million, consisting of a fixed salary of SEK 6.9 million, other benefits of SEK 0.3 million, including car and travel expenses, as well as pension payments of SEK 0.9 million. No bonus payments were made. Senior executives are covered by contribution-defined pension plans, which essentially correspond to the premium level for the Swedish ITP plan. There are no undertakings from Orexo's side regarding premature retirement for senior executives. The employment agreement may be terminated with a notice period of between three and 12 months. The notice period applies, with certain exceptions, irrespective of which party terminates the agreement. The primary exception is that Orexo must always observe any statutory longer notice periods. The monthly salary is to be paid throughout the notice period. There are no additional agreements covering severance pay for senior executives. The number of options held by the President and senior executives is shown in the information provided on page 84.

A fee of SEK 500,000, in addition to the basic salary as a senior executive, was paid to the acting President for the period December 2003 through March 2004.

Orexo has not granted loans to, provided guarantees for or provided collateral on behalf of the Company's board members, senior executives or auditors. Non of the board members, senior executives or auditors have been involved– directly or indirectly via a related company or immediate family – in business transactions with Orexo on other than commercial conditions.

Board members and senior executives

	2004	
	Number on closing date	Of which, men
Group (incl. subsidiaries)		
Board members	7	86%
President and other senior executives	7	71%
Parent Company		
Board members	6	83%
The President and other senior executives	7	71%

Illness absenteeism

January 1, 2004 – December 31, 2004	(%)
Total illness absenteeism, % of total ordinary working hours	5.2
Of which, long-term absenteeism	74.5
Illness absenteeism for men	0.4
Illness absenteeism for women	8.3
Illness absenteeism for employees, – 29 years	0.8
Illness absenteeism for employees, 30-49 years	7.4
Illness absenteeism for employees, 50 years or older	0.1

22. Financial expenses

Other financial expenses in the amount of 10,455 pertain to the cost of the new share issue, which was dormant at year-end. Expenses pertain to costs incurred in connection with a major planned international diversification of ownership with the accompanying new share issue. The board has decided to postpone this transaction for an unspecified time in the future, and thus the cost in its entirety has been charged to earnings for 2004.

23. Income tax

	2004
Current tax for the year	0
Current tax attributable to previous years	0
Deferred tax	0
Non-deductible foreign tax	1,156
Total	**1,156**

	2004
Difference between the Group's tax expense and tax expenses based on the current tax rate	
Reported pre-tax loss	(15,625)
Tax according to current tax rate	4,375
Tax effect of non-deductible costs	(3,744)
Tax effect of non-taxable revenue	1
Increase in deficit through the acquisition of subsidiaries	0
Increase in non-reported deferred tax receivable for loss carry-forwards	(632)
Tax on profit for the year according to the statement of operations	**0**

Tax rate

The current tax rate is the tax rate for income tax in the group. The tax rate is 28%.

24. Deferred income tax

Tax losses carried forward are accounted for as deferred tax assets to the extent that such tax losses carried forward are likely to be utilized against taxable profits in the future. In cases where it is hard to determine when tax losses carried forward may be utilized, such tax losses carried forward have not been assigned any value in the balance sheet.

	2004
Deferred tax receivables	
Loss carry-forwards	29,352
Non-asset loss carry-forwards	(29,352)
Deferred tax receivables, net	**0**

Tax losses carried forward amount to SEK 106,8 million and there is no time limit for their utilization.

25. Loss per share

	2004
Reported earnings	(16,781)
Earnings used for the calculation of loss per share before dilution	(16,781)
Earnings used for the calculation of earnings after dilution	**(16,781)**

	2004
Average number of shares before dilution	35,361
Anticipated conversion of warrants	2,545
Average number of shares after dilution	**37,906**

All share-related data pertains to data prior to the split approved by the annual general meeting of shareholders on April 20, 2005 which is conditional upon agreements between the main shareholders. On the publication date for the annual report, the conditions had not yet been fulfilled.

26. Undertakings

The group leases various types of machinery and other technical plant in accordance with terminable operational leasing agreements. Information on the leasing expenses reported in the statement of operations during the year is shown in Note 6.

The nominal value of future leasing fees for non-terminable leasing agreements are distributed as follows:

	2004
Matures for payment within 1 year	451
Matures for payment later than 1 year but within 5 years	202
Matures for payment later than 5 years	0
Total	**653**

27. Information to the cash flow analysis

Loss before tax includes received and paid interest with the following amounts:

	2004
Interest, received	695
Interest, paid	(79)

28. Cash flow statement

Adjustment for items not included in cash flow consist of the following:

	2004
Depreciation/amortization and write-downs	16,036
Scrapping	20
Estimated costs of stock option plan	2,823
Total	**18,879**

29. Transactions with related parties

Consulting agreements

Orexo has concluded consulting agreements with Porten Pharmaceutical AB, a company owned by Christer Nyström and Yvonne Håkansson (Christer Nyström's wife), and Kjell Strandberg Consulting AB, a company owned by Kjell Strandberg.

The agreement with Porten Pharmaceutical AB was concluded in October 1997 and extends until further notice. The agreement affects special services regarding quality assurance, as appointed expert, drug development and manufacturing and management of the preparations for patents. The maximum fee that may be paid in accordance with the agreement for each individual three-month period is SEK 216,000 excluding VAT. Total fees according to the agreements attributable to the 2004 financial year were SEK 830,000, excluding VAT.

The agreement with Kjell Strandberg Consulting AB was concluded in February 2004 and expired on December 31, 2004. The agreement involved strategic consulting regarding the official supervisory authority's approval that was to be provided by Kjell Strandberg. The hourly rate according to the agreement was SEK 2,000, excluding VAT. The total fee according to the agreement attributable to the 2004 financial year was SEK 22,000.

Purchases and sales among companies

There were no sales between companies in the group. Costs in the Parent Company of 1,045 were invoiced on to CePeP AB.

Remuneration for undertakings regarding pensions and similar benefits for board members and President

See Note 21.

No other transactions with related parties have occurred.

30. Financial risks

Management of interest rate and currency risks

Orexo's operations give rise to exposure to market risks as a result of changes in exchanges rates and interest rates. To deal with these risks effectively, Orexo has drawn up guidelines and detailed financial policy showing how these risks are to be managed and limited. Orexo's financial policy also determines the division of responsibility and reporting instructions for management.

According to the Company's financial policy, Orexo conducts hedging transactions in order to fully or partly counteract the negative effects of exposure to risks on financial markets. The primary purpose of Orexo's financial operations is to limit the negative deviations in financial results, shareholders' equity and cash flow as a result of changes in interest rates or exchange rates. Orexo does not engage in hedging transactions for speculative purposes. Orexo cannot guarantee that these strategies will be effective or that currency transaction or translation losses can be limited or correctly forecasted. There are routines for risk management regarding these risks but the Company has not used them during the year since there has been no need for that.

Orexo's finance department may use futures, options, currency swaps, interest rate swaps and forward rate agreements to limit currency and interest rate risks to which the Company is exposed.

Orexo's primary market risk is currency exposure. Consequently, the presentation below shows a sensitivity analysis for Orexo's exposure to USD and EUR.

Interest-rate risk and certain risks in the management of liquid assets

Orexo is exposed to interest rate risks primarily attributable to the Company's investments of excess liquidity in interest-bearing instruments. Orexo's finance department is responsible for managing interest rate risks. The primary objective of Orexo's interest rate risk management is to reduce negative effects of interest rate movements on net interest income. According to Orexo's policy for managing interest rate risk, excess liquidity should primarily be used to amortize any liabilities, provided that such amortization does not increase costs for the company or in a some other manner contravenes Orexo's financial policy. Also, in the purchase of securities using excess liquidity, Orexo seeks to ensure that these have a low risk profile and normally a maximum maturity of one year. Orexo normally holds instruments until the maturity date.

Credit and counterparty risk is the risk that the counterparty does not fulfill its undertakings to repay a liability or pay interest on such a liability. According to Orexo's financial policy, the Company may have the following counterparties or invest in the following instruments: Kingdom of Sweden, Nordea, FöreningsSparbanken,

Handelsbanken, SEB, Upplandsbanken, bonds issued by Swedish mortgage institutions, Swedish municipalities or county councils with a K-1 rating from Standard & Poor's, and corporate paper with K-1 rating from Standard & Poor's. In addition to the Kingdom of Sweden, to which exposure is unlimited, the maximum permissible exposure per counterparty is between SEK 20 million and SEK 100 million.

According to Orexo's financial policy, all assets in Orexo's investment portfolio must always be realizable within five banking days or within the time required based on the latest budget or forecast.

Foreign-exchange risks

Orexo's financial statements are prepared in SEK and the Company has its operations in Sweden. Accordingly, most of the operating costs are in SEK. However, the Company sells its products in countries other than Sweden and receives license revenue in currencies other than SEK. Assets, liabilities, revenue and expenses in foreign currency give rise to currency exposure. A decline in SEK against other currencies raises Orexo's reported assets, liabilities, revenue and earnings, while a strengthening of SEK vis-à-vis other currencies reduces these items. Currency fluctuations have not previously had any significant impact on Orexo's reported assets, earnings or the comparability of Orexo's earnings among the various time periods, but could have so in the future.

Foreign-exchange risks consist of translation risk and transaction risk.

Transaction exposure

Transaction exposure arises when sales are transacted in another currency than the related costs and expenses. A considerable share of Orexo's transaction exposure is attributable to the sale of Diabact® UBT outside Sweden and license revenue for the Company's products in currencies other than SEK. Orexo limits the Company's transaction exposure to the maximum extent by matching incoming and outgoing flows in certain currencies. Also, Orexo seeks to hedge at least 50% of the net flow for the time period for which a cash flow analysis can be made with a high level of certainty.

Effects of currency exposure

A substantial share of Orexo's sales are in currencies other than SEK, primarily USD and EUR. Most of Orexo's operating costs is, however, in SEK. For the 2004 financial year, sales in USD accounted for 95.8% of net sales and sales in EUR for 3.3%. During the same period, 8.2% of total operating costs were in foreign currencies, with 1.8% in USD and 4.5% in EUR.

The table below shows currency exposure in 2004 and how Orexo's operating profit for the specific is affected by a decrease or increase by 1% for the stated currencies vis-à-vis SEK, without any impact from currency hedging transactions.

(SEK thousands)	**+1%**	**(1)%**
Exchange rate vis-à-vis SEK		
USD	+809	(809)
EUR	+13	(13)

31. Events after the closing date

During March 2005, Orexo was informed by the Swedish tax authority about the possibility of assessing the Company with additional VAT of approximately SEK 2.0 million. According to a decision by the tax authority, the maximum amount Orexo can be charged is SEK 0.4 million.

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