orexo

Annual report 2011

”2011 provided confirmation that our three proprietary development programs are advancing to market in line with plans.”

Positive results in OX27 for treatment of breakthrough pain in cancer patients

Positive results supporting OX219 for treatment of opioid dependence

New share issue implemented and shareholder base strengthened

Contents

The year in brief

KEY EVENTS DURING THE YEAR

Q1

- Abstral® approved in the US and Canada.
- Anders Lundström appointed new President.
- Positive results reported from first clinical study for OX51.
- Orexo and Invida entered an agreement relating to Abstral in Asia and Pacific area.

Q2

- Abstral launched in the US and Canada.
- Positive results reported from first clinical study of OX27.
- New share issue completed generating proceeds of approximately SEK 245m before issue costs. ATP and Abingworth became new shareholders, with Novo A/S becoming the largest shareholder.

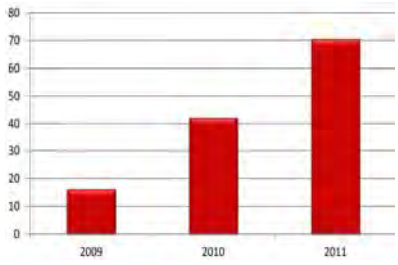
Q3

- Positive data reported for OX219.
- Acquisition of Wagner Analysen Technik GmbH (WAT).
- Sublinox (Edluar™) approved and launched in Canada.
- Carl-Johan Blomberg appointed new Chief Financial Officer.
- Nikolaj Sørensen appointed Chief Commercial Officer.

Q4

- Positive study results reported for OX27.
- Peter Edman appointed Chief Scientific Officer.
- Impairment of development costs of SEK –233m related to the decision to terminate the OX-CLI and OX-ESI projects.

Abstral-royalties 2009–2011
SEKm



Key figures

	2011	2010	2009	2008	2007
Net revenues, SEKm	**199.6**	210.5	236.1	233.3	76.8
Growth, %	**–5.2**	–10.8	1.2	204.0	–41.8
EBITDA	**–112.4**	–48.0	–88.2	–101.8	–174.7
Loss for the year, SEKm	**–392.0**	–89.2	–98.1	–103.1	–172.6
Earnings per share, before dilution, SEK	**–14.43**	–3.8	–4.3	–4.8	–11.4
Cash and cash equivalents, including short-term investments, SEKm	**246.9**	135.8	87.4	188.2	291.6
Shareholders' equity, SEKm	**311.1**	468.2	548.7	569.8	671.3
Average number of employees	**110**	105	124	123	80
Of whom active in R&D	**80**	71	93	92	54

CEO's message

The successes of our three proprietary development programs take us a step closer to our goal of realizing our commercial strategy.

Anders Lundström, President and CEO

I am very pleased to say that we made significant progress in 2011 in essentially all parts of the company and established a strong foundation for future value growth.

The continued strong sales growth for the pain product Abstral® yielded a 67-percent increase in royalty revenues during the year. With the FDA introducing a joint risk management program in the US in March 2012, the potential for Abstral to achieve success on the US market increases.

The successes of the three proprietary development projects were gratifying to see, with the progress for OX219, for the treatment of opioid dependence, being particularly positive. Our studies confirmed that we have identified the right formulation and dose and are therefore ready to conduct registration studies in 2012. The aim is to submit a registration application no later than in the first half of 2013. We have high expectations for OX219 and believe that the product has the potential to become first improvement over existing products in this class on a growing market, valued at nearly SEK 10 billion in 2011.

Our two other development programs also proceeded according to plan. We received positive feedback on the profile of OX51 and our studies show that the product profile is well suited for use in connection with procedure-induced pain. The two first studies in OX27, developed for the treatment of breakthrough cancer pain, also demonstrated positive results during the year.

In combination with the completion of the new share rights issue, royalty revenues for Abstral strengthened our financial position, providing us with the resources to drive all of our proprietary programs through registration. These constitute the platform for our future value generation.

It is vital if we are to achieve our goal of becoming a complete, integrated pharmaceutical company.

Orexo has three strategic focus areas for the next three years:

- Greater cost efficiency and productivity in research and development
- Maximizing the commercial potential of products
- Development toward a fully integrated, specialty pharma company

A more detailed description of these focus area can be found in the Strategy section.

The strategic focus areas place new demands on the organization and we have strengthened the management team with three key positions during the year: Peter Edman as Chief Scientific Officer, Nikolaj Sørensen as Chief Commercial Officer and Carl Johan Blomberg as our new Chief Financial Officer.

Another important event during the year was our acquisition of the German company Wagner, a manufacturer of instruments for diagnostic breath tests. The combination of our breath tests and Wagner's analysis tool will enable us to offer customers a complete solution, thus providing the opportunity for strong organic growth.

At the end of 2011, it was decided to terminate the research collaboration with Janssen for the development of treatment of asthma and COPD and we decided to discontinue the OX-CLI and OX-ESI projects.

In 2012, I expect to see the positive development of our projects and collaborations continue, both clinically and commercially. The single most important task is to work toward the registration application of OX219 and, simultaneously, prepare for commercial manufacturing and launch.

Our competent and skilled employees are naturally the most important reason behind our success and I would like express my deepest gratitude to them for their work and commitment during the year.

Uppsala, March 2012

Anders Lundström
President and CEO

Board of Directors' Report

The Board of Directors and the President of Orexo AB (publ), corporate registration number 556500-0600, hereby submit the Annual Report and consolidated financial statements for the fiscal year January 1 – December 31, 2011. Orexo's registered office is in Uppsala, Sweden.

Orexo's operations

Orexo is a pharmaceutical company with a focus on the treatment of pain and inflammatory diseases. Orexo has four proprietary products on the market.

- Abstral®, for the treatment of breakthrough pain in cancer patients, is approved for use in both the EU and the US. The product is sold in Europe and the US by the partner ProStrakan Group plc. In the Nordic region, Abstral is sold by ProStrakan AB – a joint venture between Orexo and ProStrakan Group.
- Edluar™, a sublingual tablet containing zolpidem to treat insomnia, is approved for use in the US and Canada and sold there by Orexo's partner Meda.
- Diabact® UBT and Heliprobe® System, two diagnostic products for the gastric ulcer bacterium Helicobacter Pylori. They are marketed by Orexo's subsidiary Kibion AB.

The Nordic joint venture ProStrakan AB also markets three other pharmaceuticals developed by ProStrakan Group: Tostrex, for the treatment of testosterone deficiencies in men, Rectogesic, for the treatment of pain associated with chronic anal fissures, and Dridol, for the treatment of patients suffering post-operative nausea when awakening from anesthetics.

Orexo has a number of projects in various development stages – ranging from preclinical and formulation development to the clinical phase. The company focuses on developing new, improved pharmaceuticals by combining well-known substances with innovative drug delivery technologies. This results in new, patentable medicines that improve patient care or offer a higher level of care not currently available in any other way. At the same time, this offers the possibility of developing products with a lower level of development risk and in a shorter time compared with the development of new chemical entities.

To commercialize products and treatments, and to reduce the risk in the development portfolio, Orexo has a number of licensing agreements and research collaborations with both global and regional partners. These are Novartis (global), Boehringer Ingelheim (global), Meda (global), ProStrakan (EU, US), Gedeon Richter (Eastern Europe and Russia), Kyowa Hakko Kirin (Japan), NovaMed (China), Neopharm (Israel), NewBridge (Africa and the Middle East) and Invida (a number of larger Asian countries, as well as Australia and New Zealand).

Orexo's revenues derive from royalties, licensing agreements, research financing as part of licensing agreements and research collaboration, sales of diagnostic products and a share in the sales of its joint venture company.

Organization

Orexo has broad-based competence throughout the development chain, from early preclinical research and development, formulation and clinical development, to registration and pharmaceutical manufacturing. Orexo has a GMP facility for the manufacture of products for clinical trials and pilot-scale production. For commercial production, manufacture is transferred to partners or contract manufacturers.

Orexo also collaborates with contract research organizations for certain aspects of drug development, such as clinical studies. Orexo employs a project-led organization, in which skills are combined based on the specific demands of individual projects. Continual development of the organization is essential for conducting an increasing number of projects in parallel and at different rates. In the second half of 2011, negotiations were conducted with Janssen Pharmaceuticals, Inc., formerly Ortho-McNeil-Janssen Pharmaceuticals, Inc. and Janssen Pharmaceutica NV, ("Janssen") concerning the OX-CLI and OX-ESI collaboration projects. At the end of 2011, an agreement was reached entailing the termination of these projects. Orexo has subsequently decided to discontinue the projects, which, in 2012, will impact the organization and the number of employees, primarily in preclinical research, and result in the focusing of the business to the three proprietary programs. Orexo has a total of 118 employees.

Key events in 2011

In 2011, sales of Abstral continued to grow and generated increased royalty revenues for the product. The three proprietary development programs progressed in line with plans and constitute a platform for continued value growth. The key events of 2011 are presented below.

Abstral® – sales in Europe, the US and Canada
Sales growth for Abstral in Europe was very strong. Royalty revenues from Abstral increased by a total of 67 percent to SEK 70.5m. At the beginning of the year, Abstral was approved by the FDA and, in April, the product was launched by Orexo's partner ProStrakan. In December 2011, the FDA approved a new joint risk management program, called a Risk Evaluation and Mitigation Strategy (REMS), for all fast-acting fentanyl products. The new REMS, which will come into effect in March 2012, will improve Abstral's ability to compete on the US market. Abstral was approved in February in Canada, one of the world's ten largest pharmaceutical markets, and launched in June by ProStrakan's partner Paladin Labs.

New share issue attracts international institutions
A new share issue generating proceeds of approximately SEK 245m, before issue costs, was conducted during the year. The new share issue secured financing for the development of OX219, OX51 and OX27 toward launch. The institutional shareholder base was broadened by ATP and Abingworth becoming new shareholders. Novo A/S increased its holding and became the largest shareholder.

Positive clinical data for all proprietary programs
OX219 In September, positive results were reported from a Phase I study of OX219 for the treatment of opioid dependence. The purpose of the study was to develop the commercial formulation and dose for the project. The chosen formulation is based on Orexo's proprietary sublingual technology.

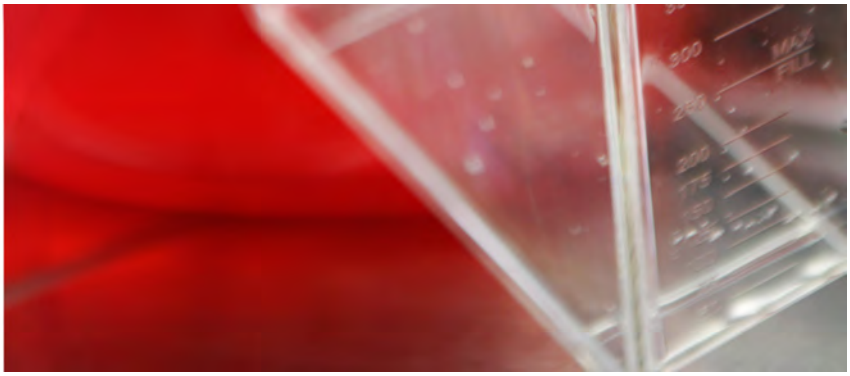
OX51 In March, positive data was reported from the first clinical study in the OX51 project, which aims to develop a treatment for acute intensive pain episodes in relation to care-related, diagnostic or therapeutic procedures in patients, who are not receiving sufficient pain relief.

OX27 In June, positive results were reported from the first pharmacokinetic study in the OX27 project for the treatment of breakthrough cancer pain. The study showed that the active pharmaceutical ingredient is both absorbed and eliminated quickly. Results from the second clinical study were reported in December and confirmed that OX27 has the potential to be dosed more flexibly than fentanyl-based products.

Recruitment of new President and strengthening of the management team
Anders Lundström was recruited as new President and CEO at the beginning of the year. The management team was also strengthened during the year through the following appointments: Peter Edman was appointed Chief Scientific Officer, Nikolaj Sørensen was appointed Chief Commercial Officer, Carl-Johan Blomberg was appointed new Chief Financial Officer and Marie Zachrisson was appointed HR Director.

Acquisition of Wagner Analysen Technik GmbH (WAT)
In July, Orexo's subsidiary Kibion acquired Wagner Analysen Technik GmbH (WAT), a leading manufacturer of IRIS instruments for diagnostic breath tests. The acquisition strengthens Kibion's operations and creates significant opportunities for future growth and thus a stronger self-contained business unit. The purchase price amounted to EUR 1.2m and was financed entirely by bank loans. If well-defined sales targets are achieved, an additional purchase premium will be paid. The acquisition is expected to contribute positively to Orexo's earnings as early as in 2012.

Sublinox (Edluar™) approved and launched in Canada
In July, the insomnia treatment Sublinox (Edluar™) was approved for sale in Canada. Meda's partner Valeant launched the product in the fourth quarter of 2011. Orexo is entitled to royalties on sales.



Significant events after the end of the fiscal year

Collaboration with Janssen Pharmaceuticals, Inc. terminated and OX-CLI/OX-ESI discontinued.

Following protracted negotiations, Orexo and Janssen Pharmaceuticals, Inc. (formerly Ortho-McNeil-Janssen Pharmaceuticals, Inc. and Janssen Pharmaceutica NV) ("Janssen") agreed to terminate their collaboration and license agreement regarding the OX-CLI and OX-ESI programs, in addition to a third Janssen program. Both parties regained all commercial rights to their respective research programs. Accordingly, Orexo will discontinue the project operations in their entirety and has written down the value of the projects related to acquired research and development. The impairment, amounting to SEK 232.5m, was charged to 2011 and does not affect Orexo's liquidity.

Orexo focuses its business and reduces costs.

Orexo announced its intention to focus its development activities on its three proprietary development programs, OX219, OX51 and OX27. The organization will thus be reduced by up to 35 full-time employees. The personnel reduction, which will have full effect in 2013, is expected to lower costs by approximately SEK 30m annually and is expected to be completed in the second quarter of 2012.

Strategy

Orexo's focus is on developing and marketing products based on the Group's proprietary drug delivery technologies applied to well-know substances. One example is the sublingual platform used for Abstral and Edluar. This form of drug development can be carried out with significantly lower risks, costs and a shorter development period compared with conventional drug development.

By becoming a fully integrated pharmaceutical company, Orexo creates better conditions for increasing profitability. The Group achieves a business model in which current revenues can finance the proprietary development programs, thus yielding the basis for more stable profitability in Orexo.

To create the greatest possible value, the company has three strategic focus areas for the next three years:

- Greater cost efficiency and productivity in research and development
- Maximizing the commercial potential of products
- Development toward a fully integrated, specialty pharmaceutical company

Greater cost efficiency and productivity in research and development

In R&D, Orexo will work intensively to continue to shorten development times for new products and reduce the development risk and thus development costs. The short-term focus of operations will be on accelerating development of the three proprietary development programs, with a clear prioritization based on commercial potential. This implies that OX219, which is the closest to market launch, will be prioritized to ensure achievement of the target of submitting a registration application in the first six months of 2013. OX51 is next in line, with a registration application expected to be submitted in 2014. OX27 also continues to be developed according to schedule and preparations for the next phase of development are ongoing.

Maximizing the commercial potential of products

As a result of its expanded commercial competence, Orexo will focus significantly more than previously on supporting the company's partners and ensuring that the potential of Abstral and Edluar is maximized and the continued positive development of the Nordic sales company ProStrakan AB. Furthermore, the conditions for the continued positive development of Kibion are considered highly favorable as a result of the commercial synergy effects attained through the purchase of Wagner. All commercialized projects are believed to have considerable growth potential, which is an important success factor for the possibility of financing the accelerated development of the prioritized projects.

Development toward a fully integrated, specialty pharmaceutical company

In activities to become a fully integrated specialty pharmaceutical company, the focus lies primarily on establishing a commercial organization. Several different alternatives are being examined in parallel and the selection of strategy and the point in time for its establishment is entirely governed by the ambition to generate the greatest possible value for the company. Already in 2012, Orexo will make a decision on the launch of OX219, as to whether the product will be launched using the company's own sales organization, licensed to another pharmaceutical company or a combination of both. Orexo has already engaged commercial expertise with the relevant experience to prepare the launch of OX219 in the US. In addition to marketing and sales resources, Orexo will need to expand its regulatory and clinical capacity and competence in order to assume responsibility for products marketed by the company in the US.

Business model

Historically, Orexo's business model has been to develop products and subsequently license or sell these via distributors. In the short and mid-term, this model will constitute the mainstay of Orexo's revenues, based primarily on revenues from Abstral. Orexo expects that future revenues from ongoing development projects will mainly be derived from the company's own sales organization. Orexo will, however, continue to license pharmaceuticals to partners if this is deemed more profitable, and for development projects that are not compatible with the Group's own commercial organization.

Patient requirements

The basis of Orexo's drug development activities is an analysis of patient requirements. The short-term focus is primarily on pain relief. These efforts are concentrated mainly on improving existing medicines by developing new, patient-adapted preparations and, through new formulations, bringing existing products to new fields of application. With an aging population and the need to enhance efficiency in the healthcare sector, Orexo sees several opportunities to develop products that can help streamline the area. OX51 is one clear example.

Competence

Orexo has unique competence to develop and commercialize new, patented products by combining well-known pharmaceutical substances with innovative drug delivery technologies. Orexo already has four approved products and has proven ability to transform a concept into a commercial product. One such example is Abstral, which has recorded sales of more than SEK 500m up to and including 2011. Orexo currently has commercial partners throughout the world. The purpose of external partners is to achieve a flexible and cost-efficient organization throughout the development chain, with proprietary leading-edge expertise in each development stage.

Product development

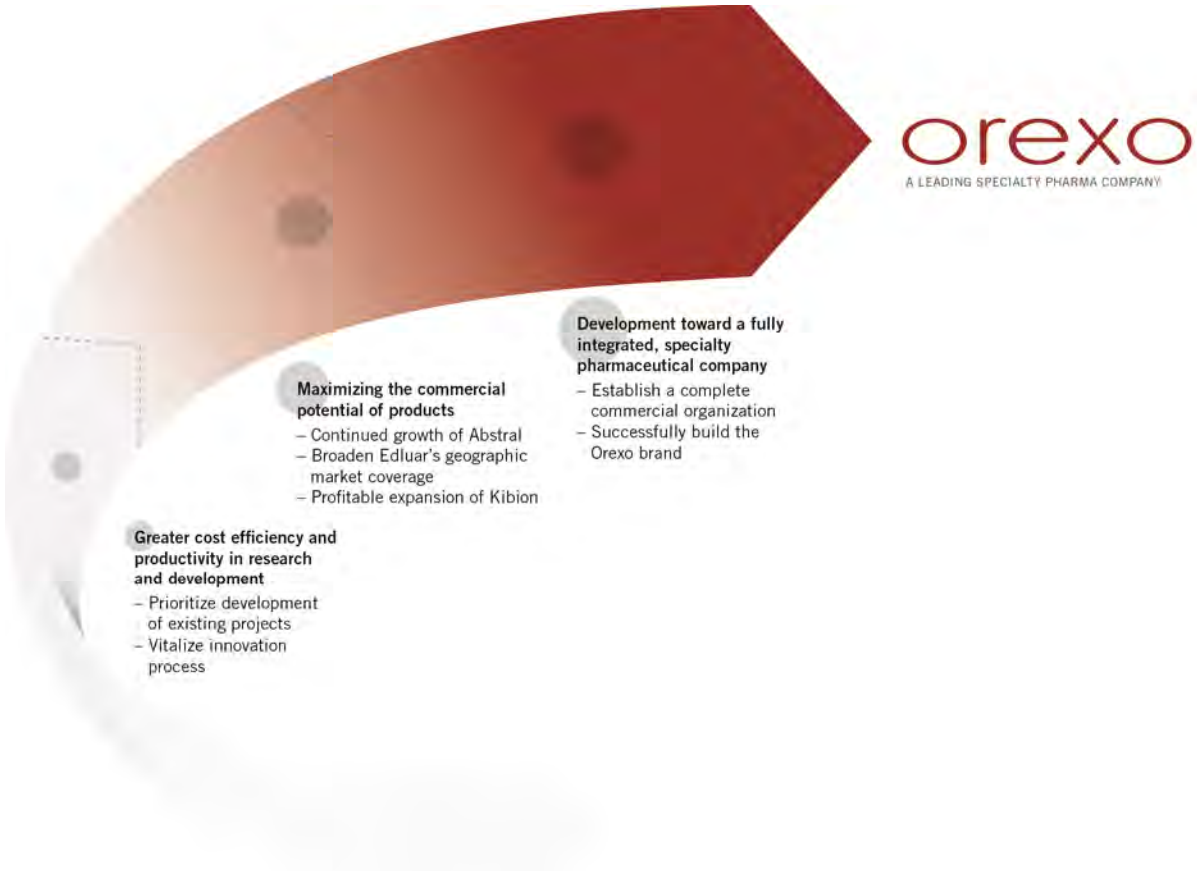
At point of intersection between patient requirements and Orexo's expertise, a number of project concepts are identified and evaluated on the basis of medical and commercial potential. One such example is OX219. Founded on Orexo's expertise in sublingual products, the company has developed a new product that dissolves faster than market-leading Suboxone® tablets, providing advantages for patients and healthcare services.

The project concepts considered to have the greatest potential advance to the development portfolio. Orexo endeavors to have a balanced portfolio containing products in the early and late development stages. The company's focus is to create new, improved medicines or identify new application areas with well-defined risks or in well-defined segments of the market. Although the main focus at present is pain and inflammatory diseases, the portfolio also contains other closely related projects. Orexo offers expertise throughout the development chain, but with a focus on formulation, clinical development and registration of products.

Sales and marketing

The prerequisites for sustained profitability are improved by developing the company's own sales and marketing organization. Orexo considers that the current development projects have sufficient market potential to ensure that profitability using its own organization is higher than if the products were licensed. However, the company's own sales organization will focus on the largest markets at the same time as Orexo will continue to work with licensing for distribution in the rest of the world. This significantly reduces the need for investment, while also providing the possibility of partially funding the launch of proprietary products through licensing revenues from other markets.

Sales of pharmaceuticals developed to date – Abstral® and Edluar™ as well as Kibion's breath tests – are primarily carried out via partners through licensing agreements. Orexo and ProStrakan Group have a joint venture company, ProStrakan AB, that markets both of the company's pharmaceuticals in the Nordic region. Licensing and sales revenues from these products contribute to the financing of development of the project portfolio.



Orexo – a specialty pharma company under development

Orexo's ambition is to establish a balanced portfolio with both early and late-stage development projects. Projects currently target pain and inflammatory diseases, although other therapy areas are also of interest.

Focus lies on developing and marketing products and well-documented substances combined with Orexo's proprietary drug delivery technologies that provide added value for the patient and society. This implies that Orexo's project portfolio has a lower development risk compared with conventional pharmaceutical development of new substances.

The portfolio comprises proprietary development projects, collaboration projects and products on the market. Orexo's long-term business strategy is to advance its own development projects to the stage that they can be marketed and sold on a proprietary basis, thus making Orexo a fully integrated, specialty pharmaceutical company.

Development programs

OX219
Treatment of opioid dependence

The aim of OX219 is to create a new, proprietary drug for the treatment of opioid dependence that offers benefits compared with the current market leader Suboxone®. Similar to Suboxone, OX219 comprises a combination of buprenorphine and naloxone. The active substance, buprenorphine, has documented good efficacy in the treatment of opioid abuse in that it relieves withdrawal symptoms at the same time as it blocks the "high" effect from other opioids. The combination of buprenorphine and naloxone in a single tablet counteracts the "high" effect that may arise following the intravenous injection of a dissolved tablet, thus reducing the risk of intravenous abuse.

OX219 is based on Orexo's unique know-how of sublingual (under the tongue) preparations. Surveys conducted by Orexo indicate that there is good potential for a product with improved attributes, such as taste, disintegration time and bioavailability (absorption of the drug).

Significant market potential

In 2010, the global market for products for the treatment of opioid dependence amounted to USD 1.8 billion and it continued to grow in 2011. Sales of the market-leading Suboxone rose by more than 15 percent in 2011 in the US (IMS). The US represents about 80 percent of the global market due to a significantly higher prescription rate of long-acting opioids for pain relief, which can lead to opioid dependence. Already in 2009, the number of people with opioid dependence in the US amounted to 2.3 million and this figure continues to grow. According to the Institute of Addiction Medicine, the medical gains in financial terms from the treatment of opioid dependence can be 12 times the cost of the treatment. Awareness of the treatment benefits is steadily increasing in the healthcare sector.

Today, the market is dominated by Reckitt Benckiser Ltd, which markets Suboxone. Suboxone is available in tablet form or as film, with a market share of 40 and 48 percent, respectively, in the US. However, prior to launch of OX219 in the US, generic competition can be expected in tablet form, since Suboxone no longer has market exclusivity.

To prescribe Suboxone, physicians must be registered and certified through the DATA2000 program, providing a major advantage when marketing OX219, since this target group is relatively limited in size and easy to identify. Furthermore, there are clearly identifiable patient segments in the US based on socio-economic, demographic and, not least, reimbursement factors. This increases the opportunity to direct marketing activities toward well-defined target groups of patients where OX219 has the strongest market position, which will prove significant in the event there is generic competition.

Project status

Of Orexo's proprietary development programs, OX219 is closest to market launch. During the year, positive results were reported from a Phase I study aimed at developing the final commercial formulation and dose of the product. The selected formulation is based on Orexo's proprietary sublingual (under the tongue) technology. The clinical development of the product is being carried out in the US and is proceeding according to plan. Orexo is following the registration procedure that will allow it receive FDA approval based on data from a previously approved pharmaceutical, in this case, the market-leading Suboxone. This will enable approval without the need for comprehensive efficacy and safety studies and is thus a significantly faster path to market.

In contacts with the FDA, Orexo received clearly positive signals both in respect of the design of the clinical development program and the manufacturing process.

The next step is final registration studies, which were initiated in the first six months of 2012, and assuming a positive outcome from these, an application for registration of OX219 will be submitted to the FDA during the first six months of 2013.

OX51
Treatment of acute intensive pain

OX51 is a new sublingual formulation of an existing drug for the treatment of acute intensive pain in conjunction with various diagnostic or therapeutic procedures. An important advantage of the new formulation is that the active substance is not only quickly absorbed, but it is also quickly eliminated. This enables more procedures to be carried out in a simpler, and for the patients, more comfortable manner. Moving simpler procedures from hospitals to clinics and, in some instances, to district medical officers is also beneficial is term of public finances.

In the US and Europe, about 130 million painful operations/procedures are conducted annually and the trend is clearly rising. The methods used today are either local anesthetic, sometimes resulting in inadequate pain relief, or general anesthetic, leading to a longer period of care and a greater use of resources for performing the procedure. Examples of procedures in which a rapid and short-lived onset of the pain-relieving effect is desirable are repositioning of fractures, prostate biopsies and other minor surgical procedures. These procedures represent a potential application of OX51 for approximately 15 percent of the total number of procedures. Orexo's market surveys indicate that there is a clear willingness to pay for more efficient pain relief, meaning that the efficiency gains can motivate a significantly higher price for OX51 than the current alternative.

During the year, a new sublingual formulation was developed and positive clinical data was reported. A patient study to determine the dose is planned for 2012. A meeting with the FDA in 2011 confirmed that the planned development program is sufficient from a regulatory perspective.

Submission of the registration application in the US for OX51 is expected to take place in 2014.

OX27
Treatment of breakthrough pain in cancer patients

OX27 is a fast-acting sublingual formulation of an existing pharmaceutical ingredient and is designed for a more optimal treatment of breakthrough pain in cancer patients compared with existing alternatives.

Cancer breakthrough pain is extremely common. About 60 percent of all cancer patients with pain experience episodes of breakthrough pain, which can occur between three and seven times a day in these patients. At present, all approved products for treatment of breakthrough pain are fentanyl products. These may only be administered four times a day at a maximum, implying that there is a need for a product that can be administered more flexibly. The market for fentanyl-based products in the US is estimated at approximately USD 500m. Because a large share of patients with breakthrough pain are still treated with opioids other than fentanyl, such as morphine, the total market for breakthrough pain in cancer patients is valued at about USD 1.5 billion in the US and EU.

Market surveys conducted among physicians, who treat cancer breakthrough pain in the US and EU, have shown a very positive response to OX27's profile and indicate that there is a need that can be filled by OX27 in this treatment segment. While competition on this market is growing steadily, OX27 is well positioned to be able to compete with all products on the market.

In June, positive results were reported from the project's first pharmacokinetic study. The study showed that the active pharmaceutical ingredient is both absorbed and eliminated quickly, making it well suited for this kind of pain treatment. At the end of the year, the subsequent clinical study confirmed that OX27 has the potential to be administered more flexibly than existing fentanyl-based products.

Collaboration projects

OX-MPI

Treatment of inflammatory pain

Partner: Boehringer Ingelheim

The first milestone for OX-MPI was achieved during 2010 when Boehringer Ingelheim GmbH selected a candidate drug for further clinical development within the scope of the exclusive development and commercialization agreement. According to the terms of the agreement, which Boehringer Ingelheim signed in November 2005 with the research company Biolipox (a company acquired by Orexo in November 2007), Boehringer Ingelheim will make additional payments once new milestones are achieved. In addition, royalties will be paid on future sales.

Boehringer Ingelheim is responsible for future development and marketing. In addition, Orexo can co-market products developed within the framework of the project in the Nordic region and the Baltic States in conjunction with Boehringer Ingelheim.

The aim is to develop a completely new class of products for the treatment of inflammatory pain. The collaboration focuses on the prostaglandin PGE2, which plays a pivotal role in many inflammatory processes. The aim of the project is to specifically block the formation of PGE2. It is believed that such a product would be as effective as major pain relief products currently available on the market, such as NSAID preparations, but with fewer side effects.

OX17

Treatment of gastroesophageal reflux disease (GERD)

Partner: Novartis

OX17 is being developed for the treatment of gastroesophageal reflux disease (GERD). Patients suffering from GERD experience recurring heartburn involving acidic regurgitation, discomfort and pain. OX17 has the potential to provide a prompt effect, but with prolonged relief. In August 2009, Orexo signed a licensing agreement with Novartis regarding OX17 for use in gastrointestinal disorders. Novartis will bear all future development costs.

OX-NLA
Treatment of rhinitis
Partner: Meda

The international specialty pharma company Meda has a global license for OX-NLA and is responsible for the project's future development.

The purpose of the OX-NLA project is to develop a fast-acting nasal spray based on the antihistamine cetirizine for the treatment of allergic and non-allergic rhinitis (hay fever).

OX-CLI and OX-ESI
Treatment of asthma/COPD
Partner: Janssen Pharmaceuticals, Ltd. (formerly Ortho-McNeil-Janssen Pharmaceuticals/Janssen Pharmaceutica ("Janssen"))

At the beginning of 2012, the collaboration was terminated with Janssen relating to the arachidonic acid programs OX-CLI and OX-ESI, in addition to a third Janssen program. Both parties regained all commercial rights to their respective research programs. Orexo subsequently decided to discontinue project operations in the arachidonic acid field.

The OX-CLI and OX-ESI research programs aimed to identify and develop small molecules for new, innovative treatments for asthma, chronic obstructive pulmonary disease (COPD) and other inflammatory diseases.

Products on the market

Abstral®

Treatment of breakthrough pain in cancer patients

Partners: Kyowa Hakko Kirin/ProStrakan Group plc (Europe, US and Japan) and Gedeon Richter, NovaMed, subsidiary of SciClone Pharmaceuticals and Neopharm, NewBridge (rest of the world)

Abstral is a rapidly disintegrating sublingual (under the tongue) tablet containing fentanyl. The product is approved for the treatment of breakthrough cancer pain in patients already treated with opioids, such as morphine, for underlying chronic cancer pain. Abstral provides patients and physicians with a convenient and controlled dose of fentanyl, allowing doses to be customized according to individual requirements, which is essential for achieving optimal pain relief.

Royalty revenues for Abstral increased during the year by a total of 67 percent to SEK 70.5m (42.2).

Sales growth for Abstral was strongest in Europe, where revenues amounted to SEK 65.6m. The most robust growth was noted in the largest markets, Spain and France. The market share for the drug on the five largest European markets during the year was 25 percent (24), calculated in the number of doses of fast-acting fentanyl products (source: IMS data, 2012). In September, Abstral was launched in the Netherlands, Europe's seventh largest market for pharmaceuticals. During the year, the product also received approval in Russia and Kuwait, and approval was also granted in Lebanon after year-end. Two new distribution agreements were signed during the year with Invida for parts of Asia and the Pacific area, and with NovaMed for Hong Kong. While Hong Kong is a limited market, it is strategically important ahead of a possible launch in China in the future.

In January 2011, Abstral was approved by the FDA and was subsequently launched in April by Orexo's partner ProStrakan. In December 2011, the FDA approved a joint risk management program, called a Risk Evaluation and Mitigation Strategy (REMS), for all fast-acting fentanyl products, thus improving Abstral's ability to compete on the US market. The new REMS comes into effect in March 2012.

The US market for fast-acting fentanyl products is valued at approximately USD 500m.

In 2011, Kyowa Hakko Kirin, Orexo's partner in Japan, carried out complementary clinical studies, which were requested by the Pharmaceuticals and Medical Devices Agency (PMDA) in Japan. The project is currently in Phase III.

Edluar™

Treatment of short-term insomnia

Partner: Meda

Edluar is an insomnia treatment based on the active substance zolpidem using Orexo's sublingual tablet technology. Zolpidem has been used for some time to treat insomnia. The Edluar tablet is placed under the tongue, where it rapidly dissolves and the active substance is absorbed through the mucous membrane.

The international specialty pharmaceutical company Meda has acquired a license for the global rights to Edluar. In June, Sublinox (Edluar) was approved for sale in Canada and the product was launched in the fourth quarter.

ProStrakan AB

Joint venture company

ProStrakan AB is owned equally by Orexo and ProStrakan Group plc. and is a sales company with Nordic sales rights for both Orexo's and ProStrakan's products.

ProStrakan AB markets four pharmaceutical preparations: Abstral®, which was developed by Orexo, and three other products originating from ProStrakan Group plc.

The company has a staff of seven active in sales and marketing and is represented in Denmark, Finland, Norway and Sweden.

During 2011, the company's sales increased 38 percent to SEK 33.7m (24.4).

The reason for the increase was primarily strong sales growth for Abstral and Tostrex. Abstral's position is being gradually strengthened by the broadening of its use from palliative care to earlier-stage use in pain treatment of cancer patients. Abstral was launched in Finland in February 2011 and was well received and accepted by Finnish physicians.

Market penetration increased during the year for Tostrex (testosterone), primarily in Sweden, with a very positive response.

The sales trend is expected to remain favorable in 2012.

ProStrakan AB markets the following products in the Nordic region: Abstral® – for the treatment of breakthrough pain in cancer patients receiving opioid treatment. Abstral is primarily prescribed by pain clinicians, physicians working within palliative care and oncologists. The use of new types of fentanyl preparations for the treatment of breakthrough pain in cancer patients is increasing rapidly as the result of growing awareness on the part of healthcare services and patients. Several similar preparations will drive growth in this market over the next few years. Tostrex® – for the treatment of testosterone deficiency. The use of testosterone products is widespread in Sweden, but is limited on markets such as Denmark, Norway and Finland. There is good potential to increase sales in these areas over the next few years. Rectogesic® – for relief of pain associated with chronic anal fissures. Rectogesic is one of the few treatment alternatives for chronic anal fissures and holds a solid market position in the Nordic region. Dridol® – for the treatment and prevention of nausea and post-operative vomiting. The market for post-operative nausea treatments is exposed to generic competition and the development of Dridol was weak during the year.

Kibion AB

Subsidiary

Kibion is a wholly owned subsidiary of Orexo and a world leader in breath testing for the diagnosis of the stomach ulcer bacterium Helicobacter pylori (Hp). It is estimated that half of the world's population are carriers of the bacterium, which is an important factor in the occurrence of stomach ulcers. People infected with Hp also run increased risks of developing cancer of the stomach.

During the year, the German company Wagner Analysen Technik GmbH was acquired. Wagner is a leading manufacturer of the IR instrument IRIS® (Infrared Isotope Analyser) for breath tests. Through the acquisition, Kibion becomes a complete supplier of tests and instruments and establishes a leading position for the company in Helicobacter pylori testing.

Products

Kibion currently has two products for the diagnosis of Helicobacter pylori – Diabact® UBT and Heliprobe® System. Both of these are based on UBT (Urea Breath Test) technology, meaning that a sample is taken of the patient's exhaled air. The products complement each other and are adapted for various market segments. The most important competitive advantage these have over other UBT tests is the patented fixed formulation (tablet or capsule), which affords shorter test preparation, lower dosage requirements and faster and more reliable results.

The acquisition of Wagner supplements Kibion's range with analysis instruments. Wagner is a global market leader with more than 650 instruments sold and the company's products are available in 60 countries throughout the world.

Use of breath testing is increasing and is recommended by leading experts as a genuine alternative to gastroscopy for patients under the age of 55. This diagnostic method is just as reliable, but is considerably more cost-effective and comfortable for both patients and physicians. The test can also be used to check the efficacy of treatment.

Market

Occurrence of Helicobacter pylori in the mucous membranes of the stomach is a very common bacterial infection. It is particularly common in developing countries, where 80–90 percent of the population may be infected. In Sweden, it is estimated that about 30 percent of the population between the ages of 30 and 50 is infected, while occurrence of the bacterium in older people is significantly higher. The infection is usually transmitted during childhood. Poor sanitary conditions, overcrowding and the lack of available food refrigeration increases the risk of infection.

Of those infected, around 30 percent develop severe symptoms. Hp infection can be treated with antibiotics in combination with acid secretion inhibitors. By providing a reliable diagnosis, Kibion's test contributes toward reducing unnecessary antibiotic treatments.

Business model and growth strategy

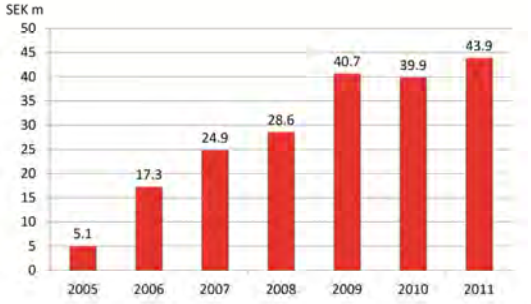
Kibion's products are sold in more than 60 countries, primarily in Europe, the Middle East, Southeast Asia and Latin America. Kibion employs distributors to handle its sales and marketing activities to physicians and laboratories. The acquisition of Wagner entails a significant expansion of the distribution network.

In 2011, sales amounted to SEK 43.9m (39.9), of which SEK 4.6m was attributable to Wagner.

Wagner's customer base provides Kibion with a significant opportunity to increase sales of existing products. The acquisition also facilitates entry into new markets now that Kibion is a supplier of complete systems, that is, analysis tools and tablets.

Kibion now has a broader platform for the development and commercialization of new breath tests. The IRIS instruments can be used for diagnostic breath testing in the areas of gastric, intestinal and liver diseases and other internal medical areas.

Kibion's sales in 2011



kibion

Employees and sustainable development

Orexo endeavors to be an attractive employer, enabling it to recruit, retain and develop talented employees. Operations are conducted in line with the company's core values of business focus, respect and drive. Business focus requires the company's goals to be taken into account in all decision making. At Orexo, employees respect each other's skills, views and decisions. Through its drive, the company strives to be dynamic, proactive and innovative.

Employees

Orexo's success is largely dependent on the high degree of expertise of its employees. About 75 percent of employees were active in research and development during the year. Some 23 percent of employees hold doctorates and 60 percent have another academic degree.

At year-end, the Orexo Group had 118 employees (105), 63 percent (62) of whom were women. Of the eight (six) individuals in Executive Management, three (two) were women. Management has extensive experience of the pharmaceuticals industry and competence in pharmaceutical chemistry, galenic pharmacy, analytical chemistry, preclinical and clinical development, regulatory affairs, project management, pharmaceutical development and business development.

There are many specialist skills within Orexo that cooperate and complement each other in projects. Training of sub-project managers was carried out during the second half of the year to strengthen and develop the project groups. To ensure leading-edge expertise and continuous access to talent, Orexo has an active exchange of knowledge with international networks and collaboration with Karolinska Institute and Uppsala University, among others.

During the year, operations were conducted in Uppsala Business Park and in Bath in the UK.

Recruitment

Because of the company's focus on building up its own marketing and sales organization, a number of key competencies with broad international experience were recruited during the year. A uniform and systematic recruitment process was introduced during the year to ensure the recruitment of employees with the right education, experience and expertise. Staff turnover amounted to 12 percent.

Work environment

The physical and psychosocial work environment is important to ensuring work satisfaction. Orexo follows up any incidents and accidents and takes the appropriate measures. Two occupational injuries occurred during the year. Together with a safety officer appointed by the staff, the company conducts an active and systematic health and safety program. During the year, a number of employees completed a defibrillator training course and a defibrillator is available on the company's premises.

Health and fitness activities

Orexo offers contributions to fitness activities and preventive healthcare and ergonomics through the occupational health services.

Performance Management

Orexo's core values – business focus, respect and drive – constitute the cornerstone for the systematic Performance Management process. Each manager is responsible for producing departmental objectives that support the overall strategic goals. At the beginning of each fiscal year, the managers and employees jointly set individual targets. It is the responsibility of the manager to create the conditions for, drive, follow up and evaluate the performance of each employee. The individual targets are evaluated in connection with employee performance reviews and ahead of salary reviews.

Sustainable development

The most important contribution that Orexo makes to society is the development of new and more effective medicines that reduce suffering and improve the quality of life of patients. At the same time, Orexo strives to minimize the negative impact of its operation on the environment and society.

Form a sustainability perspective, Orexo works actively to continuously improve all of the company's operations, with a focus on the use of chemicals, waste management, transport activities, and resource and energy efficiency. The aim is to continuously train employees, enabling them to carry out their jobs in an environmentally conscious manner, thus contributing to sustainable development. Environmental aspects are considered when procuring goods and services.

Operations comprise pharmaceutical development of new formulations in addition to early-stage drug development of new chemical substances. Pharmaceutical operations consist primarily of development and manufacture of solid dry formulations, such as tablets. Manufacturing is conducted on a laboratory and pilot scale. The early-stage drug development is conducted on a laboratory scale and includes both chemical synthesis and work on biological test models. All chemicals, pharmaceutical substances, solvents and excipients are handled, to the greatest possible extent, in closed systems to minimize emissions to wastewater or air. From a risk minimization perspective, chemicals are selected

using the Swedish Chemicals Agency's PRIO list. Orexo has extensive experience of handling various types of hazardous waste. Pharmaceutical waste and chemicals used are collected, packaged and sent for destruction.

During the fourth quarter of 2011, work commenced on the implementation of an environmental management system, which is expected to be fully introduced in 2012. During the year, an environmental impact assessment was prepared and a new application for an environmental permit was submitted to the county administrative board. Orexo applied for a new environmental permit because the business was being expanded at the same time as new operational codes were being created in conjunction with new environmental legislation gaining legal force. Despite the minor expansion of the company's operations, it will continue to be conducted on a small scale and entail a negligible environmental impact.

Orexo works continuously to restrict its use of energy and natural resources by engaging in a close dialog with the property landlord to optimize flows and reduce energy consumption and by conducting regular risk analyses to identify the goals that need to be assigned priority in environmental efforts.

In 2011, a follow-me-print solution was installed, resulting in a significant reduction in paper consumption. Furthermore, new analytical testing methods were introduced that reduce the use of solvents while also shortening the time required for analysis, thus also lowering electricity consumption.

A selection of specific measures that will be evaluated to save electricity in 2012 are:

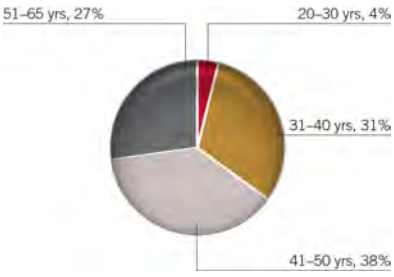
- Optimization of the distribution system for wastewater treatments to the GMP operation.
- Equip vacuum pumps on mass chromatography equipment with hoods to reduce the need for cooling of the premises.
- Connect a number of smaller exhaust air fans to larger installations to reduce the number of fans.
- In cooperation with the landlord, Klövern, investigate the possibility of recovering heat from other buildings to heat Orexo's premises.
- In cooperation with Klövern, improve window insulation.

Since 2007, Orexo has held a permit to conduct operations classified as environmentally hazardous at its premises at Uppsala Business Park.

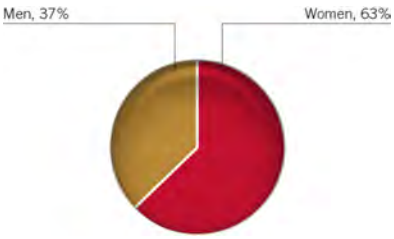
Ethical practice in clinical studies

Orexo conducts clinical studies in conjunction with specialist partners. Studies are designed in consultation between Orexo and the partner in question, with continuous assessment of the risk/benefit. The studies require regulatory approval and the regulations and ethical issues in the various countries are taken into account when they are designed and carried out. Because the studies are based on well-known substances, the risk level is generally lower than in connection with clinical tests of new molecules.

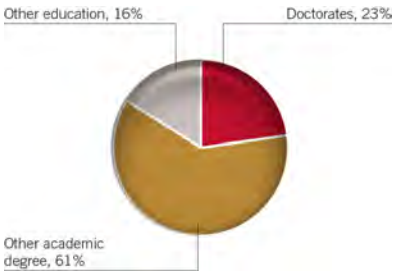
Age distribution



Gender distribution



Level of education



The Orexo share

Orexo's share is listed on NASDAQ OMX Stockholm. At year-end, Orexo had a total of 3,605 shareholders and the non-Swedish shareholding in the company amounted to 45 percent. During the year, a new share issue was completed with pre-emptive rights and was fully subscribed.

The Orexo share is listed on the NASDAQ OMX Stockholm under the symbol ORX. The last price paid in 2011 was SEK 27.70 (40.80), corresponding to a market capitalization of SEK 827m (955). The highest closing price during the year for the Orexo share was SEK 49.00, quoted on January 14. The lowest quotation was SEK 25.00 on November 10.

At the beginning of the year, the share performed positively, but subsequently declined. Adjusted for the new share issue implemented, the share price dropped by 30 percent during the year.

Liquidity

In total, 11.6 (14.0) million shares in Orexo were traded in 2011, corresponding to a value of about SEK 420m (562). The daily average trading volume was 45,800 shares, corresponding to a value of SEK 1.9m.

Ownership

At year-end, Orexo had 3,605 (3,656) shareholders, of which 408 were registered as legal entities and 3,197 as private individuals. Of the share capital, 55 percent (69) is held by shareholders registered in Sweden and 45 percent (31) by non-Swedish shareholders. The largest proportion of shareholders registered outside Sweden can be found in Denmark at approximately 30 percent.

The list is by shareholder group in which a number of legal entities may be a part of each group above.

The Extraordinary General Meeting on May 27 resolved to approve the new share issue with pre-emptive rights for existing shareholders. Orexo's shareholder base was strengthened as a result of Denmark's largest pension fund, Arbejdsmarkedets Tillaegspension (ATP), and the specialty life science investor Abingworth becoming new owners and Novo A/S increasing its shareholding and becoming Orexo's largest shareholder.

In addition to its shareholding, Novo A/S is the holder of a convertible bond amounting to SEK 111m, which can be converted into shares at a price of SEK 47.50 kronor before March 30, 2015.

Analysts monitoring Orexo

ABG Sundal Collier, Erik Hultgård
Carnegie, Camilla Oxhamre
Nordea, Olle Sjölin
Pharmium Securities, Frédéric Gomez
Redeye, Klas Palin and Peter Östling
SEB Enskilda, Lars Hevreng

Shareholders, Dec. 31, 2011

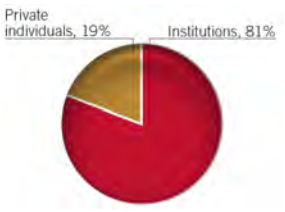
	No. of shares	%
Novo A/S	7,182,658	**24.1**
HealthCap	5,532,971	**18.5**
Arbejdsmarkedets Tillaegspension (ATP)	1,578,947	**5.3**
Abingworth	1,236,534	**4.1**
Tredje AP-fonden	1,176,798	**3.9**
Rasjö, Staffan	1,087,120	**3.6**
Försäkringsaktiebolaget Avanza pension	871,085	**2.9**
Fjärde AP-fonden	625,000	**2.1**
Others	10,574,382	**35.5**
Total number of shares	**29,865,495**	**100.0**

Known shareholders in Orexo, source: Euroclear Sweden AB.

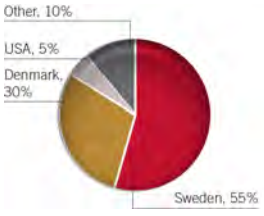
Ownership structure

	No. of shareholders	No. of shares	%
1–500	2,231	426,217	1.4
501–1,000	529	441,430	1.5
1,001–5,000	629	1,399,148	4.7
5,001–10,000	89	664,243	2.2
10,001–15,000	24	309,267	1.0
15,001–20,000	22	384,514	1.3
20,001–	81	26,240,676	87.9
Total	**3,605**	**29,865,495**	**100**

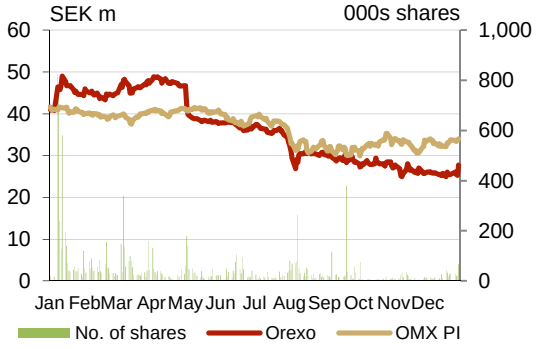
Participating interests



Ownership dist. per country



Performance in 2011



Source: NASDAQ OMX.

Financial performance in 2011

Condensed consolidated statement of operations

SEKm	2011 Jan–Dec	2010 Jan–Dec
Net revenues	**199.6**	**210.5**
Cost of goods sold	–29.0	–26.3
Gross profit	**170.6**	**184.2**
Selling expenses	–50.1	–35.2
Administrative expenses	–49.6	–46.8
Research and development costs	–194.4	–161.1
Other operating income and expenses	–268.0	–22.8
Operating loss[1]	**–391.5**	**–81.7**
Net financial items	–7.9	–7.5
Loss after financial items	**–399.4**	**–89.2**
Income tax	7.4	0.0
Net loss for the period	**–392.0**	**–89.2**

[1] Includes costs for employee stock options of SEK 3.1m for the period January–December 2011 (SEK 3.3m January–December 2010).

Revenues

Net revenues

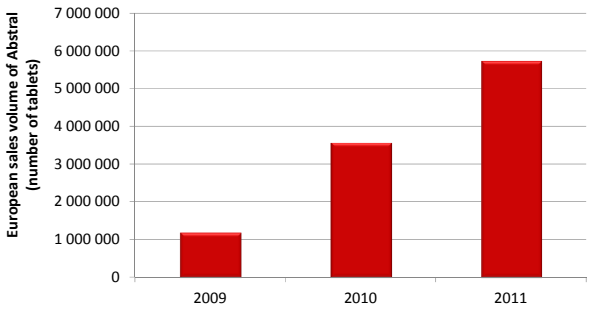
Net revenues for the period January–December 2011 amounted to SEK 199.6m (210.5).

Net revenues were distributed as follows:

Net revenues

SEKm	2011 Jan–Dec	2010 Jan–Dec
Abstral® – royalty	70.5	42.2
Edluar™ – royalty	2.4	1.3
ProStrakan AB J/V 50 %	15.6	12.3
Kibion AB	43.9	39.9
Total revenues from launched products	**132.4**	**95.7**
Partner-financed R&D costs	35.1	33.8
License revenues	33.0	81.1
Other	–0.9	–0.1
Total	**199.6**	**210.5**

Abstral's sales in Europe



During the year, royalty revenues from Abstral® increased 67 percent to SEK 70.5m (42.2). Abstral was launched in the US market during the year by the company's partner Prostrakan Ltd. A lump-sum payment from Boehringer Ingelheim amounting to SEK 57.3m was recognized in the fourth quarter of 2010, which explains the decline in net revenues in 2011 compared with the preceding year. Sales of Edluar™ rose from a low level and generated royalty revenues of SEK 2.4m (1.3).

Kibion's sales for the year totaled SEK 43.9m (39.9). Wagner Analysen Technik GmbH (WAT) was acquired during the third quarter. Activities to integrate WAT into Kibion were assigned the highest priority. The acquisition is expected to generate synergy effects on sales from 2012 and onwards. Kibion's sales in 2011 include WAT in the amount of SEK 4.6m.

ProStrakan AB's sales increased to SEK 31.2m (24.5). Of this amount, 50 percent was recognized in Orexo's sales. Sales of Abstral via ProStrakan AB increased to SEK 14.2m (7.6).

Licensing revenues amounted to SEK 33.0m (81.1).

Expenses and earnings

Selling expenses

Selling expenses amounted to SEK 50.1m (35.2). The increase is primarily attributable to costs for ongoing Phase IV studies for Abstral®, which will be completed in March 2012, marketing activities for Orexo's project portfolio, higher selling expenses in the subsidiary Kibion AB and the joint venture ProStrakan AB, and costs for Kibion AB in conjunction with the acquisition of Wagner Analysen Technik GmbH.

Administrative expenses

Administrative expenses amounted to SEK 49.6m (46.8). These include costs attributable to the recruitment of new senior executives and the implementation of a long-term incentive program 2011/2021. In the US, a Paragraph IV process is in progress in which the patent for Edluar is being challenged. The costs for this process are included in administrative expenses.

Research and development costs

Research and development costs totaled SEK 194.4m (161.1), of which SEK 27.8m (33.8) was covered by the former partner Janssen Pharmaceuticals, Inc., formerly Ortho-McNeil-Janssen Pharmaceuticals, Inc. and Janssen Pharmaceutica NV ("Janssen"). The increase is attributable to activities relating to clinical studies in proprietary programs.

Expenses for the long-term incentive program

The Group's expenses for the employee stock option program totaled SEK 3,1m, excluding implementation costs, compared with SEK 3.3m in the preceding year.

Other income and expenses

Other income and expenses amounted to an expense of SEK 268.0m (expense: 22.8). Other expenses include an impairment of research and development acquired earlier in the amount of SEK 271.2m. Of this amount, SEK 232.5m is attributable the now terminated research collaboration with Janssen and SEK 38.7m to the selection of formulation made for the proprietary development project OX219, in its entirety attributable to PKX219, which was included in the acquisition of PharmaKodex. Otherwise, other income and expenses comprise exchange-rate gains/losses.

Depreciation/amortization

Depreciation/amortization amounted to SEK 7.8m (9.6).

Net financial items

Net financial items amounted to an expense of SEK 7.9m (expense: 7.5). Net financial items include interest expenses of SEK 11.8m related to the convertible loans.

Income tax

Income tax for the year amounting to SEK 7.4m (0.0) is attributable in its entirety to the reversal of deferred tax linked to the impairment of acquired technology concerning PKX219.

Net result

The company reported an operating loss of SEK 391.5m (loss: 81.7).

Financial position

Cash and cash equivalents amounted to SEK 246.9m (135.8m) at December 31, 2011.

Cash flow from operating activities was negative at SEK 117.2m (neg: 43.0). Cash flow was positively impacted during the year as a result of a lump-sum payment from Boehringer Ingelheim amounting to SEK 56.3m, which was recognized as revenue in 2010, but paid in 2011.

The new share issue concluded in the third quarter generated proceeds totaling SEK 231.2m after issue costs.

Shareholders' equity at December 31, 2011 amounted to SEK 311.1m (468.2). The equity assets/ratio was 57 percent (66).

Investments

Gross investments in tangible fixed assets amounted to SEK 4.7m (3.4).

Parent Company

Most of the Group's business is carried out through the Parent Company, Orexo AB. Net revenues for 2011 amounted to SEK 140.8m (113.0), with the loss after financial items totaling SEK 443.8m (loss: 118.6). Investments amounted to SEK 4.7m (3.4). At December 31, 2011, cash and cash equivalents in the Parent Company amounted to SEK 227.9m (101.4). During the year, shares in subsidiaries declined by SEK 374.6m. This reduction is due to the impairment of shares as a result of the decline in value of acquired technology and to the reduction of Biolipox AB's statutory reserve, which was repaid to the Parent Company.

Significant risks and uncertainties

Significant risks and uncertainties are essentially the same for the Parent Company and the Group.

Uncertainty regarding success of development efforts

Orexo is a Group with four products on the market and a number of other product candidates in various stages of development, with some in the late clinical development phase. Research and pharmaceutical development are characterized by significant operating risks, although the pharmaceuticals industry is not particularly sensitive to economic fluctuations. Several factors impact the likelihood that a pharmaceutical project will result in approved pharmaceuticals. For example, a potential candidate drug that demonstrates good efficacy in animal models could prove to lack any significant effect on humans. The risk of side effects may also cause problems for the development of a new product. However, the risk of not reaching the market diminishes as the project passes through the various phases in the development process. If the Group's clinical trials are not successful, Orexo may lack the potential to license or in another manner commercialize new products.

Competing operations

Orexo's competitors are large pharmaceuticals companies and biotechnology companies with significant financial resources that are researching in the same areas as Orexo. There is a risk that these competitors will develop pharmaceuticals that are better than those developed by Orexo, or that they will be brought to market faster, which would result in the future value of the Group's products being lower than originally anticipated.

Partners and authorities
Orexo is dependent on partners, and expects to remain so in the future, for development, implementation of clinical trials and approval by regulatory authorities in respect of the manufacture, marketing and sale of some of the Group's product candidates. Orexo's and its partners' facilities and processes require the approval of the regulatory authorities. The manufacture and storage of pharmaceuticals and biological products involve environmental risks and are subject to environmental legislation, which may delay or disrupt operations. Changes to the healthcare system could also impact Orexo's operations and profitability.

Key personnel
Orexo is dependent on its personnel and certain key individuals. In the event that one of these people should cease their employment, it could damage and delay the development process. To motivate and retain personnel and key individuals, the company has instituted a number of employee stock option programs. Further information about these programs is provided in Note 15.

Financial risks
Orexo's operations involve some exposure to risks related to changes in interest rates and exchange rates, credit and counterparty risks and liquidity and financing risks. Orexo has developed guidelines and policies to manage and mitigate these risks effectively.

During 2011, Orexo implemented a preferential rights issue, generating proceeds of SEK 232m after transaction costs. Royalty revenues increased by 67 percent during the year, primarily from the sale of Abstral, and amounted to SEK 70.5m. Abstral was launched in a number of new markets during 2011.

Orexo's proprietary development programs, OX219, OX51 and OX27, proceeded according to plan during the year with respect to clinical trials and contacts with regulatory bodies. OX219 is the development program that is closest to market launch. On the basis of such factors as anticipated royalty revenues, milestone payments and budgeted costs for development, sales and administration, as well as the cash and cash equivalents held by the company, it is the Board's assessment that the current financing level is sufficient to carry out the planned operations for a period that comfortably extends beyond the next 12 months.

At December 31, 2011, the Group's cash and cash equivalents amounted to SEK 246.9m. For further information, refer to Note 3.

Cost forecast 2012
Because Orexo's product portfolio contains three new proprietary projects that are in the clinical phase, costs will increase during 2012. Given the uncertainty concerning the development of these projects, the company does not intend to submit a cost forecast for the current year.

Competition
Orexo faces two kinds of competition: firstly, from companies with a similar business concept and business model and, secondly, from companies active in the same medical areas. The drug delivery market is growing rapidly and is regarded as highly attractive by a number of companies with various specialist competencies. There are no direct competitors to Orexo, since the company has its own patented technologies, but a potential business partner may select another technical product solution in preference to those offered by Orexo, if such an alternative is available.

Orexo could face competition with existing marketed products for the treatment of pain, inflammation and opioid dependence. However, the treatments currently available are generally considered to be unsatisfactory and there is good potential for Orexo to produce better treatments for these indications.

Orexo licenses some of its products to companies with strong sales and marketing organizations in the respective product area. In each medical area, such as pain, insomnia and GERD, there are varying levels of product competition.

Incentive program
Orexo has introduced share-based incentive programs in the form of employee stock options and warrants with the aim of motivating and rewarding employees through partial ownership, thereby promoting the Group's long-term interests. For more detailed information, see Long-term Incentive Programs on page 25.

Principles and guidelines for remuneration to senior executives
The Board proposes that the Annual General Meeting resolve to approve the Board's proposal of principles and guidelines for the remuneration of the company's senior executives in accordance with that stated below to apply until the 2013 Annual General Meeting. The Board's proposal principally conforms to guidelines previously applied to the remuneration of the company's senior executives. "Management" refers to the President and other senior executives in the company, which in addition to the President comprises five persons. The Board has appointed a Remuneration Committee to propose matters regarding remuneration and other terms of employment for the company's management.

Reasons
Orexo shall offer market terms so that the company can recruit and retain skilled personnel. Remuneration to company management shall comprise fixed salary, variable remuneration, long-term incentive programs, pensions and other customary benefits. Remuneration is based on the individual's commitment and performance in relation to previously established goals, individual goals and goals for the entire company. Individual performance is continuously evaluated.

Fixed salary
Fixed salary is generally reviewed on an annual basis and shall be based on the qualitative performance of the individual.

The fixed salary of the President and other senior executives shall be in line with market conditions.

Variable remuneration
Variable remuneration shall take into account the individual's level of responsibility and degree of influence. The size of variable remuneration is based on the percentage of set goals met by the

individual. Variable remuneration shall amount to no more than 40 percent of the fixed salary of the President and 30 percent of the fixed salary of other senior executives. Furthermore, the Board of Directors shall have the discretion to allocate variable remuneration to senior executives when the Board deems it to be appropriate.

Long-term incentive programs

Orexo has adopted share-based incentive programs intended to promote the company's long-term interests by motivating and rewarding the company's senior executives, among others. For a description of the company's long-term incentive programs, refer to Note 15 in this Annual Report, and to the company's website, www.orexo.com.

Other remunerations and terms of employment

The President and other senior executives are covered by defined-contribution pension plans. The pension premiums paid by the company amount to 20 percent of the President's monthly salary, while premiums for other senior executives amount to between 20 and 25 percent of fixed annual salary. The defined-contribution pension premiums may be subject to review.

The employment agreement with the President may be terminated with six months' notice. Employment agreements with other senior executives may be terminated with notice of between three and 12 months. The President is entitled to severance pay equivalent to 12 months' salary if employment is terminated by the company. Other senior executives are entitled to severance pay equivalent to between zero and 12 months' salary if employment is terminated by the company.

Divergence from guidelines 2012

The Board is entitled to deviate from the above guidelines if the Board determines that there are special reasons in an individual case that warrant such action.

Divergence from the principles and guidelines adopted in 2011

See Note 27 – Remuneration to employees.

Dividend

The Board does not intend to propose a dividend for the 2011 fiscal year.

Proposed disposition of earnings

The following earnings are available to the Annual General Meeting for appropriation:

Share premium reserve	839,497,320
Retained earnings	–366,126,164
Loss for the year	–443,768,822
	29,602,334

The Board proposes that earnings of SEK 29,602,334 be carried forward.

Financial statements 2011

Consolidated financial statements of operations

(SEK thousands)

Group	NOTES	2011	2010	2009
Net revenues	6, 22	199,614	210,499	236,104
Cost of goods sold	23	–28,997	–26,321	–23,650
Gross profit		**170,617**	**184,178**	**212,454**
Selling expenses	7, 8, 9, 23, 27	–50,106	–35,223	–39,261
Administrative expenses	7, 8, 9, 23, 24, 27	–49,561	–46,819	–46,308
Research and development costs	7, 8, 9, 23, 27	–194,411	–161,120	–222,258
Other operating income	25	8,681	7,746	8,239
Other operating expenses	23, 25	–276,723	–30,535	–11,949
Operating loss		**–391,503**	**–81,773**	**–99,083**
Financial income		4,400	1,456	4,868
Financial expenses		–12,317	–8,942	–2,726
Loss after financial items		**–399,420**	**–89,259**	**–96,941**
Income tax	28	7,411	13	–1,138
Loss for the year		**–392,009**	**–89,246**	**–98,079**
Loss for the year attributable to:				
Parent Company shareholders		–392,009	–89,246	–98,079
Non-controlling interests		–	–	–
Earnings per share during the year attributable to Parent Company's shareholders (expressed in SEK)				
– before dilution	30	–14.43	–3.81	–4.32
– after dilution	30	–14.43	–3.81	–4.32

The full loss for each year is attributable to Parent Company shareholders. There are no non-controlling interests.

Consolidated statements of comprehensive income

(SEK thousands)

Group	NOTES	2011	2010	2009
Net loss for the period		**–392,009**	**–89,246**	**–98,079**
Other comprehensive income/loss				
Hedging of net investment	16	–	–	2,329
Exchange-rate differences	16	–671	–3,524	–7,574
Other comprehensive loss for the period, net after tax		**–671**	**–3,524**	**–5,245**
Total comprehensive loss for the period		**–392,680**	**–92,770**	**–103,324**
Total comprehensive loss attributable to:				
Parent Company shareholders		–392,680	–92,770	–103,324

The notes on pages 35–66 constitute an integral part of this Annual Report.

Consolidated balance sheets

(SEK thousands)

Group	NOTES	Dec 31, 2011	Dec 31, 2010	Dec 31, 2009
ASSETS				
Fixed assets				
Tangible fixed assets				
Equipment, renovation of the property of others, machinery and computers	7, 9	39,241	41,666	45,814
Intangible fixed assets				
Patents and intellectual property rights, acquired R & D and goodwill	8, 9	150,867	407,417	446,999
Total fixed assets		**190,108**	**449,083**	**492,813**
Current assets				
Inventories	12	26,689	7,965	8,440
Accounts receivable and other receivables	11, 13	82,445	119,845	60,667
Cash and cash equivalents	14	246,859	135,798	87,414
Total current assets		**355,993**	**263,608**	**156,521**
TOTAL ASSETS		**546,101**	**712,691**	**649,334**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity attributable to Parent Company shareholders				
Share capital	15	11,946	9,361	9,360
Other contributed capital	15, 17	1,339,757	1,106,798	1,094,453
Reserves	16	–9,440	–8,769	–5,245
Accumulated deficit	15	–1,031,162	–639,153	–549,907
Total shareholders' equity		**311,101**	**468,237**	**548,661**
Long-term liabilities				
Other provisions	17	565	1,112	11,114
Borrowing	18	114,513	94,421	12,800
Deferred tax liability	28	1,807	8,911	9,791
Total long-term liabilities		**116,885**	**104,444**	**33,705**
Current liabilities				
Accounts payable and other liabilities	18, 19	118,115	140,010	66,968
Total liabilities		**235,000**	**244,454**	**100,673**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**546,101**	**712,691**	**649,334**

The notes on pages 35–66 constitute an integral part of this Annual Report.

Changes in consolidated shareholders' equity

Attributable to Parent Company shareholders[1]
(SEK thousands)

Group	NOTES	Share capital	Other contributed capital	Accumulated deficit	Reserves	Total Total	Total shareholders' equity
Opening balance at January 1, 2009		**8,647**	**1,012,964**	**–451,829**	**0**	**569,783**	**569,783**
Comprehensive income							
Loss for the year				–98,079		–98,079	–98,079
Other comprehensive income							
Translation differences					–5,245	–5,245	–5,245
Total comprehensive income				**–98,079**	**–5,245**	**–103,324**	**–103,324**
Transactions with shareholders							
Employee stock options, value of employees' services	15		7,756			7,756	7,756
New share issues	15	713	73,733			74,446	74,446
Total transactions with shareholders		**713**	**81,489**			**82,202**	**82,202**
Opening balance at January 1, 2010	15	**9,360**	**1,094,453**	**–549,907**	**–5,245**	**548,661**	**548,661**
Comprehensive income							
Loss for the year				–89,246		–89,246	–89,246
Other comprehensive income							
Translation differences					–3,524	–3,524	–3,524
Total comprehensive income				**–89,246**	**–3,524**	**–92,770**	**–92,770**
Transactions with shareholders							
Employee stock options, value of employees' services	15		2,297			2,297	2,297
New share issues	15	1	43			44	44
Convertible promissory notes – equity portion			10,573			10,005	10,573
Convertible promissory notes – transaction costs, equity portion			–568			–568	–568
Total transactions with shareholders		**1**	**12,345**			**12,346**	**12,346**
Opening balance at January 1, 2011	15	**9,361**	**1,106,798**	**–639,153**	**–8,769**	**468,237**	**468,237**
Comprehensive income							
Loss for the year				–392,009		–392,009	–392,009
Other comprehensive income							
Translation differences					–671	–671	–671
Total comprehensive income				**–392,009**	**–671**	**–392,680**	**–392,680**
Transactions with shareholders							
Employee stock options, value of employees' services	15		4,139			4,139	4,139
New share issues	15	2,585	242,229			244,814	244,814
Issue expenses	15		–13,409			–13,409	–13,409
Total transactions with shareholders		**2,585**	**232,959**			**235,544**	**235,544**
Closing balance at December 31, 2011	15	**11,946**	**1,339,757**	**–1,031,162**	**–9,440**	**311,101**	**311,101**

1) There are no non-controlling interests.

Consolidated cash flow statements

(SEK thousands)

Group	NOTES	2011	2010	2009
Cash flow from operating activities				
Operating loss		–391,503	–81,773	–99,083
Interest received		4,400	550	759
Interest paid		–9,297	–8,942	–397
Other financial items		–138	906	–
Tax paid		–	–	–1,389
Adjustment for non-cash items	33	279,354	39,825	20,834
Cash flow from operating activities before change in working capital		**–117,184**	**–49,434**	**–79,276**
Change in working capital				
Accounts receivable		42,698	–67,453	–2,963
Other current receivables		2,737	8,275	6,143
Inventories		–18,147	475	5,542
Current liabilities		–26,785	64,871	–64,487
Provisions		–547	299	1,114
Cash flow from operating activities		**–117,228**	**–42,967**	**–133,927**
Investing activities				
Acquisition of machinery and equipment		–4,736	–3,438	–2,588
Divestment of machinery and equipment		–	–	2
Acquisition of subsidiaries after deductions for acquired cash and cash equivalents		–10,298	–	24,695
Cash flow from investing activities		**–15,034**	**–3,438**	**22,109**
Financing activities				
New share issue		244,814	44	90
Issue expenses		–12,798		
Borrowings		11,743	111,150	16,000
Amortization of loans		–	–16,000	–
Cash flow from financing activities		**243,759**	**95,194**	**16,090**
Cash flow for the year				
Cash and cash equivalents at start of period		135,798	87,414	188,220
Exchange-rate differences in cash and cash equivalents		–436	–405	–5,078
Change in cash and cash equivalents		111,497	48,789	–95,728
Cash and cash equivalents at end of period	14	**246,859**	**135,798**	**87,414**

Parent Company income statements

(SEK thousands)

Parent Company	NOTES	2011	2010	2009
Net revenues	6, 22	140,772	112,951	208,183
Gross profit		**140,772**	**112,951**	**208,183**
Selling expenses	7, 8, 9, 23, 27	–22,739	–16,533	–16,588
Administrative expenses	7, 8, 9, 23, 24, 27	–76,291	–61,605	–42,260
Research and development costs	7, 8, 9, 23, 27	–182,478	–145,395	–192,463
Other operating income	25	3,519	4,136	3,574
Other operating expenses	23, 25	–40,185	–2,998	–6,203
Operating loss		**–177,402**	**–109,444**	**–45,757**
Profit/loss from financial investments				
Interest income		3,758	506	230
Interest expense		–14,181	–9,399	–2,543
Other financial expenses	26	–255,944	–295	–
Other financial income		–	–	6,269
Loss after financial items		**–443,769**	**–118,632**	**–41,801**
Income tax	28	–	–	–1,390
Loss for the year		**–443,769**	**–118,632**	**–43,191**

Parent Company statements of comprehensive income

(SEK thousands)

Parent Company	NOTES	2011	2010	2009
Net loss for the period		–443,769	–118,632	–43,191
Other comprehensive income for the period, net after tax		–	–	–
Total comprehensive loss for the period		–443,769	–118,632	–43,191
Total comprehensive income/loss attributable to:				
Parent Company shareholders		–443,769	–118,632	–43,191

Parent Company balance sheets

(SEK thousands)

Parent Company	NOTES	Dec 31, 2011	Dec 31, 2010	Dec 31, 2009
ASSETS				
Fixed assets				
Intangible fixed assets				
Patents and intellectual property rights	8, 9	72	218	363
Tangible fixed assets				
Equipment, renovation of the property of others, machinery and computers	7, 9	39,060	41,566	45,523
Financial fixed assets				
Shares and participations in subsidiaries and joint ventures	10	230,089	604,763	606,414
Total fixed assets		**269,221**	**646,547**	**652,300**
Current assets				
Inventories	12	15,555	2,529	1,385
Current receivables				
Accounts receivable	13	51,847	46,554	64,531
Tax claims	13	2,248	2,046	728
Other receivables	13	2,427	527	2,759
Receivables from Group companies	13	16,516	14,338	–
Prepaid expenses and accrued income	13	47,800	70,521	9,439
Total current receivables		**120,838**	**133,986**	**77,457**
Cash and cash equivalents	14	227,850	101,400	12,790
Total current assets		**364,243**	**235,386**	**91,632**
TOTAL ASSETS		**633,464**	**884,462**	**743,932**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Restricted shareholders' equity				
Share capital	15	11,946	9,361	9,360
Statutory reserve	15	290,751	290,751	290,750
		302,697	**300,112**	**300,110**
Non-restricted shareholders' equity				
Share premium reserve	15, 17	839,497	606,539	594,523
Accumulated deficit	15	–366,125	–247,493	–204,302
Loss for the year	15	–443,769	–118,632	–43,191
		29,604	**240,414**	**347,030**
Total shareholders' equity		**332,300**	**540,526**	**647,140**
Long-term liabilities				
Other provisions	17	565	1,135	813
Long-term liabilities	18	99,839	94,421	12,800
Total long-term liabilities		**100,404**	**95,556**	**13,613**
Current liabilities				
Accounts payable	19	21,108	21,147	13,064
Other liabilities	18, 19	20,356	17,554	17,679
Liabilities to Group companies	19	103,119	123,842	27,405
Accrued expenses and deferred income	19	56,177	85,837	25,031
Total current liabilities		**200,760**	**248,380**	**83,179**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**663,464**	**884,462**	**743,932**
Pledged assets and contingent liabilities				
Pledged assets	20	44,000	44,000	16,000
Contingent liabilities	21	11,295	6,050	6,050

Changes in Parent Company's shareholders' equity

(SEK thousands)

Parent Company	NOTES	Share capital	Statutory reserve	Share premium reserve	Accumulated deficit	Total share-holders' equity
Opening shareholders' equity at January 1, 2009		**8,647**	**290,750**	**514,099**	**–204,302**	**609,194**
Loss for the year					–43,191	–43,191
Total transactions recognized directly in shareholders' equity						0
Total recognized income and expenses					**–43,191**	**–43,191**
Employee stock options, value of employees' services	15			6,691		6,691
Subscription for shares through exercise of warrants	15	2		88		90
New share issues	15	711		73,645		74,356
Opening shareholders' equity at January 1, 2010		**9,360**	**290,750**	**594,523**	**–247,493**	**647,140**
Loss for the year					–118,632	–118,632
Total transactions recognized directly in shareholders' equity						0
Total recognized income and expenses					**–118,632**	**–118,632**
Employee stock options, value of employees' services	15			1,969		1,969
Subscription for shares through exercise of warrants	15	1		43		44
Convertible promissory notes – equity portion	15			10,005		10,005
Opening shareholders' equity at January 1, 2011		**9,361**	**290,750**	**606,540**	**–366,125**	**540,526**
Loss for the year					–443,769	–443,769
Total transactions recognized directly in shareholders' equity						0
Total recognized income and expenses					**–443,769**	**–443,769**
Employee stock options, value of employees' services	15			4,139		4,139
New share issues	15	2,585		242,228		244,813
Issue expenses	15			–13,409		–13,409
Closing shareholders' equity at December 31, 2011		**11,946**	**290,750**	**839,498**	**–809,894**	**332,300**

Parent Company cash flow statements

(SEK thousands)

Parent Company	NOTES	2011	2010	2009
Operating activities				
Operating loss before interest expense and interest income		–177,402	–109,444	–45,757
Interest received		3,758	506	231
Interest paid		–11,299	–9,399	–132
Other financial items		–255,944	–295	–169
Tax paid		–	–	–1,389
Adjustment for items not included in the cash flow	33	382,290	14,867	14,250
Cash flow from operating activities before change in working capital		**-58,597**	**–103,765**	**–32,966**
Accounts receivable		–5,293	17,977	–719
Other current receivables		18,441	–74,506	29,043
Inventories		–13,026	–1,144	3,848
Current liabilities		–47,203	157,910	–26,070
Long-term liabilities		5,418	–	–
Provisions		–570	322	323
Cash flow from operating activities		**–100,830**	**–3,206**	**–26,541**
Investing activities				
Acquisition of machinery and equipment		–4,736	–3,378	–2,588
Divestment of machinery and equipment		–	–	2
Acquisition of shares in subsidiaries		–	–	–3,781
Cash flow from investing activities		**–4,736**	**–3,378**	**–6,367**
Financing activities				
New share issue		244,814	44	90
Issue expenses		–12,798		
Borrowing		–	111,150	16,000
Amortization of loans		–	–16,000	–
Cash flow from financing activities		**232,016**	**95,194**	**16,090**
Cash flow for the year				
Cash and cash equivalents at start of period		101,400	12,790	29,608
Change in cash and cash equivalents		126,450	88,610	–16,818
Cash and cash equivalents at end of period	14	**227,850**	**101,400**	**12,790**

Notes

(Unless otherwise stated, all amounts quoted are in SEK thousands)

NOTE 1 GENERAL INFORMATION

The principal objective of Orexo AB (publ), the Parent Company and its subsidiaries (the Group), is to develop and commercialize new, innovative products, based on known compounds, formulated in our patent-protected drug delivery platform, thus generating added value for patients, society and the company's shareholders.

The Parent Company is the limited liability company Orexo AB (publ), with its registered office in Uppsala, Sweden. The address of the company's head office is Virdings allé 32 A, Uppsala, Sweden.

The Parent Company is listed on NASDAQ OMX Nordic Exchange Stockholm.

The Board of Directors approved these consolidated financial statements for publication on March 19, 2012.

The statement of operations and balance sheets will be presented to the Annual General Meeting on April 11, 2012 for adoption.

NOTE 2 SUMMARY OF IMPORTANT ACCOUNTING POLICIES

The most significant accounting policies applied during the preparation of these consolidated financial statements are specified below. Unless otherwise stated, these policies have been applied consistently for all years presented.

A change was made during the year in respect of classification of impairment of acquired research and development. Impairments are now recognized as other operating expenses instead of previously in research and development costs. Historical comparative figures have been restated to reflect the new classification. The change for the Group for 2010 is SEK 25.8m and for 2009 SEK 2.0m.

2.1 Basis for preparation of the financial statements

The consolidated financial statements for Orexo were prepared in accordance with the Swedish Annual Accounts Act, RFR 1 Supplementary Accounting Rules for Groups, as well as International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the EU. They have been prepared in accordance with the cost method, except for the elements relating to remeasurement of available-for-sale financial assets.

The Parent Company applies the same accounting policies as the Group, except in instances as specified in Note 4 "Accounting policies of the Parent Company." Any deviations that occur between the policies of the Parent Company and the Group are due to restrictions in the ability to apply IFRS to the Parent Company pursuant to the Swedish Annual Accounts Act (ÅRL) and the Pension Obligations Vesting Act and, in some instances, for tax purposes.

Going concern principle

The consolidated financial statements for Orexo are prepared on the basis of the going concern principle. Note 3, "Financial risk management," describes Orexo's liquidity, financing and capital risks.

2.1.1 Amendments to accounting policies and disclosures

(a) New and amended standards applied by the Group

None of the IFRS or IFRIC interpretations that are, for the first time, obligatory for fiscal years commencing on or later than January 1, 2011 had any material impact on the Group.

(b) New standards, amendments and interpretations of existing standards that have not yet become effective and have not been applied prospectively by the Group

- IAS 19, Employee benefits
- IFRS 9, Financial instruments
- IFRS 10, Consolidated financial statements
- IFRS 12, Disclosures of interests in other entities
- IFRS 13, Fair value measurement
- IFRS 11, Joint arrangements
  (Applicable for fiscal years commencing January 1, 2013.)

The amendment requires joint ventures to be recognized in accordance with the equity method. The proportional method is no longer permitted, which in the case of Orexo, means that the Prostrakan AB joint venture will be recognized in line with the equity method as of 2013.

No other IFRS or IFRIC interpretations that have not yet become effective are expected to have any material impact on the Group.

2.2 Consolidated financial information

(a) Subsidiaries

Subsidiaries are all companies in which the Group is entitled to shape financial and operational strategies in a manner that is consistent with a shareholding usually in excess of 50% of the voting rights. The existence and effect of potential voting rights that may currently be utilized or converted must be taken into account when assessing whether the Group exercises a controlling influence over another company. The Group also determines that a controlling influence exists despite not having a participation in excess of 50% of the voting rights but for which it nonetheless is able to govern financial and operating strategies through de facto control. De facto control can arise under circumstances whereby the share of the Group's voting rights in relation to the size and spread of the voting rights of other shareholders enables the company to govern financial and operational strategies, and so forth.

Subsidiaries are included in the consolidated accounts as of the date on which the controlling interest is transferred to the Group. They are excluded from the consolidated accounts as of the date on which the controlling interest ceases to apply.

The purchase method is used to recognize the Group's business combinations. The purchase consideration for the acquisition of a subsidiary consists of the fair value of transferred assets, liabilities and shares issued by the Group. The purchase consideration also includes the fair value of all assets or liabilities that are a consequence of an agreement in respect of contingent consideration. Identifiable acquired assets and assumed liabilities in a business combination are initially measured at fair value on the acquisition date. The Group determines on an acquisition by acquisition basis whether all non-controlling interests in the acquired company are recognized at fair value or at the interest's proportional share of the acquired company's net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is completed in several steps, the previous equity interests in the acquired company are remeasured at fair value on the date of acquisition. Any gain or loss arising is recognized in profit or loss.

Each contingent consideration to be transferred by the Group is recognized at fair value on the date of acquisition. Subsequent changes to the fair value of a contingent consideration classed as an asset or liability are recognized in line with IAS 39, either in profit or loss or in other comprehensive income. Contingent considerations classed as equity are not remeasured and the subsequent settlement is recognized in equity.

Goodwill is initially measured as the amount by which the total purchase consideration and fair value of non-controlling interests exceeds the value of identifiable acquired assets and assumed liabilities. If the purchase consideration is lower than the fair value of the acquired company's net assets, the difference is recognized directly in profit or loss.

Intra-Group transactions, balance-sheet items and income and expenses for intra-Group transactions are eliminated. Gains and losses resulting from intra-Group transactions and which are recognized in assets are also eliminated. Where necessary, the accounting policies for subsidiaries have been adjusted to guarantee consistent application of the Group's policies.

(b) Joint ventures

The Group's holdings in jointly owned units are recognized in line with the proportional method. The Group combines its share of revenues and costs, assets and liabilities, as well as cash flow in the particular joint venture with corresponding items in its own consolidated accounts. The Group recognizes the share of the profits or losses from the Group's sale of assets to a joint venture that corresponds to the other joint owner's share.

The Group also receives indirect income via the joint venture as a consequence of royalties received for products sold by Prostrakan Ltd to the joint venture. However, this income is eliminated in the Group.

The Group does not recognize its share of profits or losses in a joint venture as a result of the Group's purchase of assets from this joint venture before the assets are sold on to an independent party. However, a loss on the transaction is recognized immediately if the loss entails that an asset is recognized at an excessive value.

2.3 Segment reporting

Operating segments are recognized in a manner that corresponds to the structure of internal reports submitted to the chief operating decision maker. The chief operating decision maker is responsible for the allocation of resources and assessment of the operating segment's results. For the Group, this function has been identified as Executive Management.

Executive Management assesses the operation in its entirety, i.e. as a segment.

Segments receive their income by selling products and through license revenues comprising lump-sum payments, remuneration for research collaboration, intermediate milestone payments and royalty revenues.

2.4 Translation of foreign currency

(a) Functional currency and reporting currency

Transactions in foreign currencies are translated to the functional currency using the exchange rates prevailing 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 date are recognized in profit or loss among "Other operating income" and "Other operating expenses."

(b) Transactions and balance sheet items

Transactions in foreign currencies are translated to the functional currency using the exchange rates prevailing 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 date are recognized in profit or loss among "Other operating income" and "Other operating expenses."

(c) Group companies

The earnings and financial position of all Group companies (none of which use a high inflation currency as their functional currency) that use a functional currency other than the reporting currency are restated at the Group's reporting currency as follows:

- assets and liabilities for each of the balance sheets are restated at the exchange rate applicable on the closing date;
- income and expenses for each of the income statements are translated at an average currency exchange rate (provided this average exchange rate is a reasonable approximation of the accumulated effect of the exchange rates applicable on the transaction date; otherwise, income and expenses are translated at the rate applicable on the transaction date), and
- all exchange-rate differences are recognized in other comprehensive income.

Exchange-rate differences arising as a consequence of the translation of net investment in foreign operations and of borrowing and other currency instruments identified as hedges for such investments are recognized in other comprehensive income upon consolidation. When a foreign operation is divested either wholly or in part, the exchange-rate differences recognized in shareholders' equity are transferred to profit or loss and recognized as part of the capital gain/loss.

Goodwill and adjustments of fair value arising in the event of acquisition of a foreign operation are treated as assets and liabilities for this operation and translated at the exchange rate on the closing date.

2.5 Tangible fixed assets

Tangible fixed assets are recognized at cost, less depreciation. Subsequent expenditures are added to the carrying amount of the asset or recognized as a separate asset, depending on which is appropriate, only when it is probable that the future economic benefits related to the asset will accrue to the Group and the cost of the asset can be measured reliably. Expenses incurred in repairs and maintenance are recognized as costs.

Tangible fixed assets are depreciated over the estimated useful life of the asset. When the depreciation amount for assets is determined, the asset's residual value is taken into account where appropriate.

Straight-line depreciation methods are used for all types of tangible fixed assets. The following depreciation periods are applied:

Renovation of the property of others	20 years
Machinery and equipment	5 years
Computers	3 years

In the event that an asset's carrying amount exceeds its estimated recoverable value, the asset is immediately impaired to its recoverable value under "Other operating income" and "Other operating expenses".
The residual value and useful life of assets are tested on every closing date and adjusted where necessary.

Gains and losses from sales are determined by means of a comparison between the sales proceeds and carrying amount and are recognized as "Other operating income" and "Other operating expenses" in profit or loss.

2.6 Intangible assets

Intangible assets are recognized in the balance sheet when it is probable that the future economic benefits related to the asset will accrue to the Group and the asset's value can be measured reliably. Development expenses are capitalized and recognized in the balance sheet as intangible assets if the criteria for recognition in the balance sheet as stipulated in IAS 38 Intangible Assets are satisfied. Research expenses are expensed as incurred. The R&D operations conducted by Orexo to date have been of such a nature that all R&D expenses have been recognized as an expense as incurred.

Group intangible fixed assets consist of:

(a) Goodwill

Goodwill consists of the amount by which the cost exceeds the fair value of the Group's share of the acquired subsidiary's identifiable net assets on the acquisition date. Goodwill on acquisitions of subsidiaries is recognized as intangible assets. Goodwill is tested annually in order to identify any impairment requirements and in the event there are indications of a sustained decline in value. Goodwill is recognized at cost less accumulated impairment. Since goodwill recognized in the consolidated financial statements is deemed to have an indeterminate useful life, no amortization is applied.

When goodwill is impairment-tested to determine any impairment requirements, it is distributed among cash-generating units.

Gains or losses arising from the sale of a unit include the remaining carrying amount of the goodwill pertaining to the divested unit.

(b) Acquired research and development

Acquired R&D consists of acquired individual projects and the surplus values arising in conjunction with business combinations. Ongoing R&D projects acquired through business combinations are recognized at cost as "Acquired R&D". Expenses for continuing research in acquired projects are booked as they arise. Following initial recognition, the assets are recognized in line with the cost method, meaning that Acquired R&D is recognized at cost after deductions for any accumulated amortization and impairment. Amortization according to plan commences when the R&D project in question results in a product that starts to be sold on a commercial basis. See Note 8 for further information.

(c) Patents and rights

Patents and rights are recognized at cost. Patents and rights have a limited useful life and are recognized at cost less accumulated amortization. Amortization is applied straight-line in an effort to distribute the cost of patents and rights across their estimated useful life. The following amortization periods are applied:

Patents and rights	5 years
IT systems	3 years

2.7 Impairment of non-financial assets

Assets with an indeterminate useful life are not depreciated/amortized in consolidation but are instead reviewed annually, and in the event of any indication of a sustained decline in value, to identify any impairment requirement. Assets that are depreciated/amortized are assessed in terms of the value of decline whenever events or conditions indicate that the carrying amount is perhaps no longer recoverable. An impairment loss is recognized in the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less selling expenses and value in use. When reviewed in respect of possible impairment, goodwill is distributed among cash-generating units, while the impairment requirement of acquired research and development is divided between the projects. In the case of assets other than financial assets and goodwill that were previously impaired, a test is conducted on the closing date to determine whether a reversal is warranted.

2.8 Inventories

Inventories are recognized at the lower of cost and net sales value. Cost is determined on the basis of the first in, first out (FIFO) principle. The cost for finished products and work in progress consists of raw materials, direct salaries, other direct costs and attributable indirect manufacturing costs (based on normal manufacturing capacity). Loan expenses are not included. The net sales value is the estimated sales price in current operations, less deductions for applicable variable sales costs.

2.9 Financial instruments

Under IFRS 7, companies must disclose whether their financial instruments have a bearing on the company's financial position and earnings. Financial instruments are recognized in the balance sheet when the Group becomes a party in accordance with the contractual terms of the instrument. Receivables are recognized in the balance sheet once an invoice is submitted and the liability recognized once the counterparty has fulfilled its obligations and a contractual obligation to pay exists.

The purpose for which the financial asset or liability was acquired determines classification. Group financial assets and liabilities are classified in the categories shown below:

- Financial assets at fair value in profit or loss
- Loan receivables and accounts receivable
- Available-for-sale financial assets

The Group's operations primarily focus on the development, production and sale of the Group's products and services. The Group does not actively trade in financial instruments that are not related to the Group's operations. Because of this, the financial assets and liabilities recognized in the balance sheet are primarily current investments, cash and cash equivalents, accounts receivable, accounts payable and borrowing.

During the year, financial instruments only consisted of accounts receivable and loan receivables. Loan receivables and accounts receivable are financial assets that are not derivatives, that have determined or determinable payments and that are not listed on an active market. These are classified as current assets, if they have a due date of up to 12 months after the balance sheet date. If the due date is more than 12 months after the balance sheet date, the asset is classified as a fixed asset. Loan receivables and accounts receivable are recognized initially at their fair value plus transaction costs and, following the acquisition date, at amortized cost using the effective interest method. Refer also to Notes 11,13 and 14.

2.10 Offset of financial instruments

Financial assets and liabilities are offset and recognized at a net amount in the balance sheet, only when there is a legal right to offset the recognized amounts and an intention to settle with a net amount or simultaneously realize the asset and settle the liability.

2.11 Impairment of financial assets

Assets recognized at amortized cost

At the end of each reporting period, the Group assesses whether there is any objective evidence for a financial asset or group of financial assets to be impaired. Impairment losses are only recognized on a financial asset or group of financial assets if objective evidence of impairment exists due to the occurrence of a number of events after initial recognition of the asset (a "loss event") and the impact of this event (or these events) on estimated future cash flows of the financial asset or group of financial assets can be reliably estimated.

Impairment losses are calculated as the difference between the carrying amount of the asset and the present value of the estimated future cash flows (excluding future credit losses that have not occurred), discounted by the financial asset's original effective interest. The carrying amount of the asset is impaired and the amount of the impairment loss is recognized in consolidated profit or loss.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash, bank balances and other current investments that mature within three months of the date of acquisition and which are exposed only to a minor risk of value fluctuation.

2.13 Accounts receivable

Accounts receivable are initially measured at fair value and subsequently at amortized cost, using the effective interest method, less any provisions for value losses. A provision for value loss in accounts receivable is made 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 as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted using an effective rate of interest. The provision amount is recognized in profit or loss.

2.14 Provisions

Provisions are recognized in the balance sheet when the Group has a legal or informal undertaking as a result of an event that has occurred and when it is probable that an outflow of resources will be required to settle the undertaking.

The provision is recognized in the amount expected to be required to settle the undertaking.

2.15 Accounts payable

Accounts payable are obligations to pay for goods or services that were acquired from suppliers in the course of operating activities. Accounts payable are classified as current liabilities if they mature within one year or earlier (or during a normal business cycle if it is longer than one year). Otherwise, accounts payable are recognized as long-term liabilities.

Accounts payable are initially recognized at fair value and subsequently at amortized cost by applying the effective interest method.

2.16 Borrowing

Borrowing is initially recognized at net fair value after transaction costs. Borrowing is subsequently recognized at amortized cost and any difference between the amount received (net after transaction costs) and the repayment amount is recognized in profit or loss allocated over the borrowing period by applying the effective interest method.

Borrowing is classified as a current liability unless the Group has an unconditional right to defer payment of the liability by at least 12 months.

2.17 Compound financial instruments

The compound financial instruments issued by the Group encompass convertible promissory notes that the holder can demand be converted to shares and where the number of shares to be issued is not affected by changes in the fair value of the shares.

The liability portion of a compound financial instrument is initially recognized at fair value for a similar liability that does not provide entitlement to conversion to shares. The equity portion is initially recognized as the difference between the fair value of the entire compound financial instrument and the fair value of the liability portion. Directly attributable transaction costs are distributed across the liability and equity portions to their respective carrying amounts.

After the date of acquisition, the liability portion of a compound financial instrument is measured at amortized cost through the application of the effective interest method. The equity portion of a compound financial instrument is not remeasured after the date of acquisition, except in the event of conversion or redemption.

2.18 Shareholders' equity

Transaction costs that may be directly attributed to the issuance of new shares or options are recognized net after tax in shareholders' equity as a deduction from the issue proceeds.

The following are recognized as "Other contributed capital":

- Difference between the share's quotient value and the redemption price of exercised warrants.
- Difference between the share's quotient value and the calculated value of newly issued shares and warrants (option premium).
- Employee stock options, value of employees' services.

2.19 Current and deferred income tax

The tax expense for the period includes current and deferred tax. Tax is recognized in profit or loss, except when the tax refers to items that are recognized directly against shareholders' equity or in other comprehensive income. In these cases, tax is also recognized in shareholders' equity or in other comprehensive income.

The current tax expense is estimated on the basis of the tax regulations on the closing date that are decided, or have essentially been decided, in the countries in which the Parent Company's subsidiaries are active and generate taxable income. Executive Management regularly evaluates the claims made in tax returns regarding situations in which the applicable tax rules are the subject of interpretation. When deemed appropriate, a provision is made in the amounts that are likely to be paid to the tax authorities.

Deferred tax is recognized in accordance with the balance sheet method on all temporary differences that arise between carrying amounts of assets and liabilities and their value for tax purposes in the consolidated financial statements. However, deferred tax is not recognized if it arises as a result of a transaction that represents the initial recognition of an asset or a liability that is not a business combination and which, on the date of the transaction, affects neither recognized earnings nor earnings for tax purposes.

Deferred income tax is calculated using tax rates (and legislation) that have been decided or announced by the closing date and are expected to apply when the deferred tax receivable in question is r leased or the deferred tax liability is settled.

Deferred tax receivables are recognized to the degree that it is likely that future surpluses for tax will be available, against which temporary differences may be utilized.

Deferred tax is calculated on temporary differences that arise on shares in subsidiaries, except where the Group can determine the date for reversal of temporary differences and it is likely that the temporary difference will not be reversed in the foreseeable future. No value of the loss carry-forwards was recognized in the balance sheet, as it is uncertain when it will be possible to utilize this.

2.20 Employee benefits

(a) Pension obligations

A defined-contribution pension plan is a pension plan according to which the Group pays fixed fees to a separate legal entity and for which the Group has no further payment obligations once the fees are paid.

The Group uses only defined-contribution pension plans. The pension plans are financed through payments to an insurance company.

Fees are recognized as personnel expenses when they fall due for payment. Prepaid fees are recognized as an asset.

(b) Share-based payments

The Group has share-based payment plans in the form of employee and Board member stock options. Settlement is made in shares when the company receives services in return for the Group's equity instruments (stock options). The fair value of the service that provides entitlement to the allotment of options is expensed. The total amount that is expensed is based on the fair value of the allotted options:

- including all market-related conditions,
- excluding any effect of service conditions and non-market-related vesting conditions (for example, the employee remains employed at the company for a stipulated period of time), and excluding the effect of conditions that are not vesting conditions.
- including internal operational targets approved by the Board.

Non-market-related vesting conditions are taken into account in the assumption of the number of options that are expected to be vested. The total cost is recognized over the entire vesting period, which is the period during which all of the stipulated vesting conditions are to be fulfilled. At the end of each reporting period, the company reviews its assessment of how many shares can be expected to be vested based on the non market-related vesting conditions. Any divergences from the original assessments prompted by the review are recognized in profit or loss and a corresponding adjustment is made in shareholders' equity.

The company issues new shares when the stock options are exercised. Received payments, after deductions for any directly attributable transaction costs, are credited to share capital (the quotient value) and other contributed capital when the stock options are exercised.

Social security expenses on the benefits that are expected to arise in conjunction with value increases are recognized over the vesting period with due consideration of value changes, in accordance with UFR 7.

(c) Severance payments

Severance payments are made when the Group serves notice to an employee prior to the normal pension date or when an employee voluntarily accepts redundancy in exchange for such remuneration. The Group recognizes severance payments when it is clearly obliged to give notice to an employee according to a detailed formal plan with no possibility of it being revoked, or to provide remuneration in conjunction with termination of employment as a result of an offer made to encourage voluntary redundancy. Benefits due more than 12 months after the closing date are discounted at their present value.

(d) Accounting policies for bonus plans

The Group has a bonus system that covers employees. The bonus system is based on achievement of company goals and is paid out in proportion to annual salary. During the fiscal year, the estimated bonuses vested for the year are calculated and expensed. Payment of the vested bonus is made in the subsequent year, normally in February.

2.21 Revenue recognition

Revenues comprise the fair value of goods and services sold, excluding value-added tax, rebates and discounts and after eliminated intra-Group sales. Revenues are recognized as follows:

Sale of goods

Revenues from the sale of goods is recognized on the date of delivery to the customer, that is, the date on which ownership rights are transferred to the customer, who thereby assumes the financial risk. By industry practice, pharmaceuticals may not returned to the seller.

License revenues

Orexo's license agreements usually include one or more of the following types of income:

- A lump-sum payment on the signing of the agreement – normally without repayment obligation. This normally pertains to the right to register, market and sell Orexo's patent-protected products within a particular geographic area, or it may also constitute payment for the transfer of technology or know-how to the business partner. In the event a lump-sum payment covers more than one delivery (for example, the transfer of rights and technology), income is distributed on the basis of the fair value for each part-delivery.
- Payment for research collaboration. These are received on an ongoing basis and are recognized over the period to which they pertain and during which the work is conducted. Milestone payments are triggered when a research target or sales target is attained in line with the definitions in each agreement, such as the granting of a patent, termination of clinical testing or approval of registrations. Such payment is recognized when all the terms and conditions pursuant to the agreements have been met.

Royalty revenues

- Royalties are received on a rolling basis when distributors recognize sales and are paid in the same period during which sales were made.

Interest income

Interest income is recognized over the term using the effective interest method.

2.22 Leasing

Leasing is classified in the consolidated financial statements either as financial or operational leasing, pursuant to IAS 17, Leasing Agreements. Financial leasing is the case when the financial risks and benefits associated with ownership are essentially transferred to the lessee. In other cases, leasing is operational leasing.

In the case of agreements classified as financial leasing, the object is recognized as a fixed asset in the consolidated balance sheet. The obligation to pay future leasing fees is recognized as a long-term or current liability. At the beginning of the leasing period, the asset and liability are recognized at the lower of the leasing object's fair value and the present value of the leasing fees. The leasing fees are distributed among interest and amortization of the liability. Interest is recognized in profit or loss, with amortization recognized in the balance sheet. The interest expense is distributed across the leasing period so that each reporting period is charged with an amount corresponding to a fixed rate of interest for the liability recognized for the specific period. The leased asset is depreciated in accordance with the rules for depreciable assets. If it cannot be ascertained that ownership will transfer to the Group at the end of the leasing period, the object is depreciated in its entirety

during the leasing period or its useful life, whichever is the shorter. Depreciation is recognized in profit or loss.

2.23 Cost of sold products and services
The cost of sold products comprises the materials cost for the products the Group itself sells on the market, via the Kibion AB and Wagner Analysen Technik GmbH subsidiaries and the Prostrakan AB joint venture. The cost of sold services, relating to research collaborations, is recognized as development costs.

2.24 Hedge options
On redemption of employee stock options issued by Orexo, the difference between the market value for the share applicable at the time and the redemption price is taxed in the income tax schedule for the employee. Similarly, Orexo must pay social security fees on this difference. The cost of these payroll overheads is set on a rolling basis during the term of the options, whilst fees are initially paid at the time of redemption. To hedge itself against the liquidity effect of this, Orexo has issued options to the subsidiary Pharmacall with the intention that this subsidiary divest itself of these on the market and use this liquidity to pay the social security fees. Such hedging does not qualify for hedge accounting under IFRS, but is instead classified as a capital transaction. Corporate gains, such as an increase in shareholders' equity, arising on the divestment of options are recognized in shareholders' equity and designated "Redeemed hedge options," while liquidity that Orexo receives from the redemption of these options is recognized under "Subscription of shares through the exercising of warrants". No hedge options were redeemed during 2009, 2010 or 2011.

NOTE 3 FINANCIAL RISK MANAGEMENT

The Group's operations expose it to a number of financial risks. These risks can be categorized into operational risks and financial risks. The financial risks are described below, along with the manner in which these are managed in order to minimize the risk level.

Financial risks and policies
To efficiently manage financial risks, Orexo has drawn up a series of guidelines and a detailed financial policy in respect of the manner in which such risks are to be managed and mitigated. Orexo's financial policy also establishes the distribution of responsibility and reporting instructions for Executive Management. The main purpose of Orexo's financing operation is to limit negative deviations in the financial results, shareholders' equity and cash flow as the result of fluctuations in interest rates or exchange rates.

The President of the Group is responsible for producing, implementing and following up the Group's financial policy, which is subsequently approved by the Board of Directors. The Group's Chief Financial Officer is responsible for the day-to-day financial administration and reports on a monthly basis, or when necessary, to the Group President.

3.1 Market risk
Currency risks
The Group is exposed to currency risks through export/import transactions (flow exposure), mainly in US dollars (USD), euros (EUR) and pounds sterling (GBP). The Group has assets (accounts receivable) and liabilities (accounts payable) in foreign currencies (balance exposure), as well as investments in the form of net wealth in foreign subsidiaries (translation exposure). Orexo's financial statements are prepared in SEK and the company has its primary operations in Sweden. Accordingly, most operating expenses are in SEK. However, the company sells its products in countries other than Sweden and receives revenues in currencies other than SEK.

Assets, liabilities, revenues and expenses in foreign currency give rise to currency exposure. A decline in SEK against other currencies increases Orexo's recognized assets, liabilities, revenues and costs, while a strengthening of SEK in relation to other currencies reduces these items.

Flow exposure arises when sales are conducted in some currency other than the related costs and expenses. A substantial share of Orexo's flow exposure is attributable to the sale of Diabact UBT® and Heliprobe™ System outside Sweden, remuneration for research collaborations and license revenues and royalty income for the company's products in currencies other than SEK. The license agreements written with counterparties are frequently denominated in some other currency than SEK, primarily USD or EUR.

The company has the option of hedging revenues in foreign currency. The financial policy permits exchange-rate hedging instruments to be used to eliminate or minimize the currency risks arising in the company and this must always be linked to an underlying exposure. The permitted hedging instruments are currency futures, acquired currency options (call and put options) and currency accounts.

A substantial share of Orexo's sales is in currencies other than SEK, primarily USD, EUR and GBP. However, most of Orexo's operating expenses are in SEK. During the 2011 fiscal year, sales in USD accounted for 18 percent (14) of net revenues, with sales in EUR accounting for 50 percent (67) and sales in GBP for 0(0). During the same period, 17 percent (17) of total operating expenses were in foreign currency with 30 percent (13) in USD, 29 percent (34) in EUR and 21 percent (53) in GBP.

To limit the currency risk, concluded agreements should include a currency adjustment clause whenever possible. In currencies in which the Group has flows in the same currency, the flows are to be matched to the greatest extent possible. At present, the Group does not hedge revenues or expenses in foreign currencies.

A change in value of USD against SEK of 10 percent entails a change in revenues of approximately SEK 3.5m and in earnings of about SEK 3.0m. The corresponding change in EUR entails a change in revenues of approximately SEK 10.1m and in earnings of about SEK 2.9m, and in GBP a change in revenues of approximately SEK 0 and in earnings of about SEK 2.1m. A 10-percent movement in GBP entails an impact on equity of about SEK 1.0m. Otherwise, the impact on equity is largely in line with the impact on earnings.

Translation exposure arises when the Group's earnings are influenced by exchange-rate fluctuations when earnings for foreign subsidiaries are translated to SEK. Since foreign subsidiaries are only an insignificant part of the operations, this exposure is not hedged. The Group's shareholders' equity is affected by exchange-rate fluctuations when the foreign subsidiaries' assets and liabilities are translated to SEK. This exposure is not currently hedged.

Interest-rate risk
Orexo's financial policy defines liquidity as the cash and cash equivalents required to fulfill Orexo's commercial undertakings. All other liquidity is defined as surplus liquidity. Orexo is exposed to interest-rate risks attributable to the company's investments of surplus liquidity in interest-bearing instruments and through long-term borrowing. Orexo's finance department is responsible for managing interest-rate risks.

The primary objective of Orexo's interest-rate risk management is to reduce the negative effects of interest-rate movements on net interest income. To reduce the impact of interest-rate movements on earnings, Orexo mainly uses short-term investments. At year-end, all of Orexo's cash and cash equivalents were held in bank accounts.

It shall be possible to trade all investments on a second-hand market, with the maximum term for an individual investment being five years. Orexo normally retains instruments until their maturity date.

Orexo's policy is that securities purchased with surplus liquidity should have a low risk profile. According to Orexo's financial policy, all assets in Orexo's investment portfolio must always be realizable within a maximum of three banking days.

The Group had interest-bearing liabilities totaling SEK 120.9m on December 31, 2011. The interest-bearing liability relates to s convertible loan with a fixed annual interest rate of 8 percent and a bank loan raised in conjunction with the acquisition of Wagner Analysen Technik GmbH with an interest rate of about 3.5 percent.

Simulations conducted show that the impact on earnings of a difference in interest rates of 0.5 percent would entail an increase/decrease of SEK 55,000.

Price risk
The Group is not exposed to any price risk.

3.2 Credit risk and counterparty risks
Credit and counterparty risk is the risk that the counterparty will not fulfill its undertakings to repay a liability or pay interest on such a liability and the risk associated with balances with credit institutions.

For the Group, there are mainly three categories of payment flows from customers in which credit risks could arise: in the subsidiaries Kibion's and Wagner Analysen Technik's and in the joint venture ProS-

trakan's sales to distributors, the payment flows from Orexo's license agreements with other parties and bank balances.

With regard to Kibion's distributors, credit risks are reviewed on an ongoing basis based on the customer's financial position, previous experiences and other factors.

An extensive evaluation of the counterparty is always undertaken prior to the signing of a license agreement. Accounts receivable are continuously monitored, with checks performed on due customer invoices. Of total accounts receivable at December 31, 2011, the three largest customers accounted for 81 percent. No other single customer accounted for more than 5 percent of total accounts receivable. Note 13 presents the amounts due.

The Group's financial transactions shall only be carried out with banks with an official rating not below A1- (according to Standard & Poor).

3.3 Liquidity and financing risk

Liquidity risk is defined as the risk that Orexo will be unable to fulfill its undertakings to pay debts on time or at a reasonable cost. Liquidity risk is managed by means of the Group holding sufficient cash and cash equivalents to ensure continuing operations. According to the financial policy, all investments must be convertible into cash and cash equivalents within three banking days.

Cash flow forecasts are prepared each month. Executive Management continuously monitors the forecasts for the Group's liquidity to ensure that the Group has sufficient cash funds to meet the requirements of continuing business operations.

The table below shows the Group's contractual non-discounted cash flows from financial liabilities, distributed on the basis of the period remaining to maturity on the closing date.

At December 31, 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Accounts payable	27,323	–	–
Accrued costs	51,852	–	–
Borrowing	11,621	11,539	129,130

At December 31, 2010	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Accounts payable	25,478	–	–
Accrued costs	78,153	–	–
Borrowing	8,892	8,892	131,157

At December 31, 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Accounts payable	18,064	–	–
Liabilities pertaining to financial leasing	–	–	–
Accrued costs	15,459	–	–

During 2011, Orexo implemented a preferential rights issue, generating proceeds of SEK 232m after transaction costs. Royalty revenues increased during the year by 67 percent, primarily from the sale of Abstral, and amounted to SEK 70.5m. Abstral was launched in a number of new markets during 2011.

Orexo's proprietary development programs, OX219, OX51 and OX27, proceeded according to plan during the year with respect to clinical trials and contacts with regulatory bodies. OX219 is the development program that is closest to market launch. On the basis of such factors as anticipated royalty revenues, milestone payments and budgeted costs for development, sales and administration, as well as the cash and cash equivalents held by the company, it is the Board's assessment that the current financing level is sufficient to carry out the planned operations for a period that comfortably extends beyond the next 12 months.

3.4 Capital risk

The Group's objective for its capital structure is to safeguard the Group's ability to continue its operations so it can generate a return for the shareholders and benefits for other stakeholders, as well as maintain an optimum capital structure to keep capital costs down.

The Group's capital is assessed on the basis of its equity/assets ratio. The equity/assets ratio at December 31, 2011, 2010 and 2009 is presented in the table below:

	2011	2010	2009
Shareholders' equity	311,101	468,237	548,661
Total assets	546,101	712,691	649,334
Equity/assets ratio	**57%**	**66%**	**85%**

NOTE 4 ACCOUNTING POLICIES OF THE PARENT COMPANY

4.1 Basis for preparation of the financial statements

Orexo AB, the Parent Company, has prepared its annual accounts in accordance with the Swedish Annual Accounts Act and the Swedish Financial Accounting Standards Council's recommendations RFR 2. RFR 2 stipulates that the Parent Company must apply International Financial Reporting Standards (IFRS) as adopted by the EU, to the extent that this is possible within the framework of the Swedish Annual Accounts Act and the Pension Obligations Vesting Act and taking into account the relationship between accounting and taxation. The recommendation specifies the exceptions and additions to be made in relation to IFRS.

Consequently, the Parent Company applies the policies presented in Note 2 of the consolidated financial statements, with the exceptions outlined below. The policies are applied consistently to all years presented, unless otherwise stated. The same policies as those used in the preceding year were applied.

Preparing financial statements that comply with applicable regulations requires the use of some important estimates for accounting purposes. Furthermore, it is required that Executive Management conducts certain assessments in the application of the company's accounting policies. The areas that involve a high degree of complex assessment or areas in which assumptions and estimates are of material importance for the company's Annual Report are outlined in Note 5.

Presentation forms

The income statement and balance sheet comply with the forms set down in the Swedish Annual Accounts Act, meaning that the primary differences compared with the consolidated financial statements primarily pertain to financial income and expenses, provisions and the statement of changes in shareholders' equity

4.2 Segment reporting

Information is provided only on the distribution of net revenues by areas of operations and geographic markets.

4.3 Shares and participations in subsidiaries and associated companies

Shares and participations in subsidiaries and associated companies are recognized at cost with deductions for any impairment. Additional purchase prices are recognized as payment for future services included in the cost. Dividends received are recognized as revenues insofar as they derive from profits earned after the acquisition. Dividends that exceed these profits are regarded as a repayment of investment and reduce the carrying amount of the participation.

When there are indications that shares and participations in subsidiaries or associated companies have declined in value, an estimate is

made of the recoverable amount. If this is lower than the carrying amount, impairment is applied. Impairment losses are recognized in the items "Results from participations in Group companies" and "Results from participations in associated companies."

4.4 Financial instruments

Financial assets are classified in a different manner in the Parent Company's balance sheet than in the consolidated balance sheet. The notes on the financial assets show the manner in which the items in the balance sheet relate to the classification used in the consolidated balance sheet and in the consolidated accounting policies. The company applies measurement at fair value in line with the Swedish Annual Accounts Act (ÅRL) 4: 14 a-d and the description of the accounting policies in Note 2 for the Group thus also applies to the Parent Company, except as regards accounting for the effects on earnings.

4.5 Group and shareholders' contributions

Shareholders' contributions granted are recognized as an increase in the value of shares and participations. An assessment is then made as to whether there is a need for impairment of the value of shares and participations in question.

Group contributions are recognized on the basis of their financial implications, meaning that Group contributions that are granted or received for the purpose of reducing the Group's total tax are recognized either as an appreciation of the value of shares and participations or as an expense in profit or loss. Group contributions received and which may be compared to dividends are recognized as dividends from Group companies in profit or loss. Group contributions granted, which may be compared to a shareholders' contribution, are recognized in line with the principle for shareholders' contributions above with due consideration of the effect on current tax.

4.6 Deferred income tax

Amounts allocated to untaxed reserves represent taxable temporary differences. Due to the relationship between accounting and taxation, however, in a legal entity deferred tax liabilities on untaxed reserves are recognized as part of untaxed reserves.

4.7 Leasing

All leasing agreements, irrespective of whether they are financial or operational, are recognized as operational leasing (leasing agreements).

4.8 Guarantee commitment /Financial guarantees

The Parent Company has issued a financial guarantee for the benefit of the subsidiary Kibion AB. This relates to a bank loan raised in connection with the acquisition of Wagner Analysen Technik GmbH.

NOTE 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events deemed reasonable under prevailing circumstances.

5.1 Critical estimates and assessments for accounting purposes

The Group makes assessments and assumptions about the future. The resulting accounting estimates will, by definition, seldom correspond to the actual results. Estimates and assumptions that entail a significant risk of material adjustment to the recognized amounts of assets and liabilities during the next fiscal year are outlined below.

(a) Impairment testing of goodwill

Regarding goodwill, an assessment is made of the asset's annual value decline or when there is an indication that the carrying amount of goodwill exceeds the recoverable amount. Goodwill, whose value has declined, must be impaired down to the recoverable amount that goodwill is deemed to have on the basis of the information available. The recoverable amount is defined as the higher of the net sales value and the value in use. The value in use is estimated by means of a discounted cash flow method based on future expected incoming and outgoing payments. Material differences in assessments of the future anticipated cash flows and the discounted rate of interest used could result in different valuations for an asset. For further information, refer to Note 8.

At December 31, 2011, goodwill amounted to SEK 33,448m (17,679).

(b) Impairment testing of acquired research and development

Research and drug development are characterized by significant operative risks. Several factors affect the probability of a drug project resulting in an approved preparation. The risk of not reaching the market diminishes after a project passes through the various phases in the research and development process. Of the Group's acquired R&D projects, one has reached the clinical phase, while the rest are in the preclinical phase.

The value of acquired R&D is tested annually to ensure that the carrying amount does not exceed the recoverable amount. This impairment testing includes experience-based estimates of the amount of future incoming and outgoing payments. The probability of the occurrence of income-generating events and the probability that the projects will result in products that reach the market are estimated based on available industry statistics. These probabilities vary depending on the phase of development that the R&D projects are in. Future incoming and outgoing payments are adjusted to the level of probability and subsequently discounted by applying a rate that reflects the cost of capital and risk. If an acquired R&D project were to be discontinued, the carrying amount of the project would be immediately written down to zero and the impairment loss would be charged to earnings. For further information, refer to Note 8.

During the year, acquired R&D was impaired by SEK 271.2m. Of this amount, SEK 232.5m relates to the terminated research collaboration with Janssen, for which final agreement was reached in January 2012. The agreement confirms the uncertainty of the value that existed at the closing date, which is why the impairment was charged to earnings for 2011. The remainder of the impairment amount totaling SEK 38.7m is due to the selection of formulation made for the proprietary development project OX219, in its entirety attributable to PKX219, which was included in the acquisition of PharmaKodex.

At December 31, 2011, acquired R&D amounted to SEK 116,610m (388,487m).

(c) Royalty revenues

Royalties may be impacted by external factors, including sales limitations or price regulations initiated by authorities in the countries in which sales are conducted. This is out of the control of the company and information of this nature does not normally reach the company until it is already too late. Because of this, it can be difficult to estimate royalty revenues, which in turn can lead to erroneous periodization.

5.2 Critical judgments in the application of the company's accounting policies

(a) Assessment as to whether a license agreement entails the divestment or a grant of rights

Certain license agreements entail that global rights are transferred to a business partner. Since Orexo retains the intellectual property rights, which may be retrieved under certain circumstances, these agreements are not recognized as though the licensing agreement implies a divestment. For Orexo, this means that these assets remain in the balance sheet item "Acquired research and development."

Orexo's research, collaboration and commercialization agreements with Boehringer Ingelheim guarantee future revenues to Orexo and give Orexo the option of marketing products within the framework of the project in certain countries in conjunction with Boehringer Ingelheim. On this basis, it is the assessment of the company that the licensing agreement not to imply that the asset has been divested, which is why it remains recognized in Orexo's balance sheet.

(b) Research and development

Costs attributable to research are expensed as they arise. Costs attributable to development projects are recognized as intangible assets in the balance sheet in cases in which these costs may be expected to generate future financial benefits. Other development costs are expensed as they arise. Development costs that are expensed are not recognized as an asset in subsequent periods. For 2011, these costs amounted to SEK 194,411 (161,120).

Executive Management is of the opinion that the development costs recognized for 2011 cannot, in any part, be recognized as an asset because it cannot be reliably determined that the ongoing projects fulfill the requirements entitling recognition as an asset. To the extent that Orexo may independently conduct and finance development projects through to later phases in the years ahead, some of the company's future

development expenditures may fulfill the requirements for asset recognition.

(c) Revenue recognition

Executive Management assesses the probability of whether future financial value will accrue to the Group on the basis of a number of factors, such as the customer's payment history and credit worthiness. If the Group deems a receivable to be doubtful, a provision is made until it is possible to determine whether or not the Group will receive payment.

During the year, the Group received lump-sum payments from a number of collaboration partners. These payments have been in the form of payments both with and without demands for recompense from the Group. A licensing agreement permits Orexo's partners to register, market and sell the Group's patented products within a certain geographic area for a specified time. Lump-sum payments received and considered remuneration for this exclusivity are recognized directly. Wherever lump-sum payments are considered to be remuneration for future services in return, the revenue is distributed over time based on the implications of such services, e.g. when a lump-sum payment is received and a research collaboration agreement is in place, remuneration is distributed straight-line over the time the research collaboration continues.

A milestone payment is an item of revenue related to achieved goals specified in the agreement with the partner in question. Such goals may include the start of clinical trials or the granting of product registration approval by an authority. Revenues for intermediate milestone payments are recognized once the goal has been achieved and the Group has fulfilled its undertakings.

(d) Deferred taxes

Orexo has significant loss carry-forwards. Orexo concludes that there is not a sufficiently high level of probability of them being utilized. The loss carry-forwards for tax purposes in the Group amounted to SEK 1,175m (1,066.9) at December 31, 2011

NOTE 6 SEGMENT INFORMATION

The Group has defined its operating segments based on the information used by Executive Management to make strategic decisions and management assesses the operations as a single unit, meaning that the company has only one segment.

The Group's operations are conducted primarily in the geographic areas below. Sales figures are based on the country in which the customer is located. There are no sales between geographic areas.

	Group			Parent Company		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Sales distributed geographically						
Sweden	12,098	11,803	89,686	56,411	41,644	118,423
UK	73,466	49,510	47,549	70,628	49,510	47,549
Other EU countries	13,634	75,421	42,248	5,407	351	9,056
East Asia	6,641	20,776	27,942	5,970	20,716	27,936
US	54,637	27,854	4,238	975	730	4,238
Other countries	39,138	25,135	24,441	1,381	–	981
Total	**199,614**	**210,499**	**236,104**	**140,772**	**112,951**	**208,183**

The company's three largest customers combined account for 81percent of the company's net revenues, with 38 percent, 32 percent and 11 percent, respectively.

All assets and investments are located in Sweden and Germany.

NOTE 7 TANGIBLE FIXED ASSETS

Group	Equipment and machinery	Computers	Renovation of others' property	Art and non-depreciable equipment	Financial leasing	Total
Fiscal year 2009						
Opening balance	14,402	1,583	33,748	374	211	50,318
Purchases	2,476	92	–	20	–	2,588
Increase through business combinations	356	43	–	–	–	399
Disposals	–24	–67	–	–	–	–91
Depreciation	–4,676	–760	–1,815	–	–211	–7,462
Disposals	19	66	–	–	–	85
Exchange-rate differences	–21	–2	–	–	–	–23
Closing balance	**12,532**	**955**	**31,933**	**394**	**–**	**45,814**
At December 31, 2009						
Cost	26,760	3,489	36,379	394	1,894	68,916
Accumulated depreciation and impairment	–14,228	–2,534	–4,446	–	–1,894	–23,102
Carrying amount	**12,532**	**955**	**31,933**	**394**	**–**	**45,814**
Fiscal year 2010						
Opening balance	12,532	955	31,933	394	–	45,814
Purchases	3,403	35	–	–	–	3,438
Disposals	–1,322	–1,393	–205	–	–	–2,920
Depreciation	–4,848	–858	–1,623	–	–	–7,329
Disposals	1,182	1,391	99	–	–	2,672
Exchange-rate differences	–9	–	–	–	–	–9
Closing balance	**10,938**	**130**	**30,204**	**394**	**–**	**41,666**
At December 31, 2010						
Cost	28,841	2,131	36,174	394	1,894	69,434
Accumulated depreciation and impairment	–17,903	–2,001	–5,970	–	–1,894	–27,768
Carrying amount	**10,938**	**130**	**30,204**	**394**	**–**	**41,666**
Fiscal year 2011						
Opening balance	10,938	130	30,204	–	–	41,666
Purchases	4,100	673	–	–	–	4,773
Increase through business combinations	183	–	–	–	–	183
Depreciation	–5,345	–224	–1,809	–	–	–7,378
Exchange-rate differences	–3	–	–	–	–	–3
Closing balance	**9,873**	**579**	**28,395**	**394**	**–**	**39,241**
At December 31, 2011					**–**	
Cost	33,124	2,804	36,174	394	1,894	74,390
Accumulated depreciation and impairment	–23,251	–2,225	–7,779	–	–1,894	–35,149
Carrying amount	**9,873**	**579**	**28,395**	**394**	**–**	**39,241**

Leasing expenses amounted to SEK 288 (514) (2,006) for the leasing of equipment, machinery and computers are included in profit or loss.

Financial leasing
Tangible fixed assets include leasing objects that the Group has on the basis of financial leasing agreements in the following amounts.

	2011	2010	2009
Cost, capitalized financial leasing	1,894	1,894	1,894
Accumulated depreciation according to plan	–1,894	–1,894	–1,894
Carrying amount	**–**	**–**	**–**

NOTE 8 INTANGIBLE FIXED ASSETS

Group	Goodwill	Acquired R&D	Patents and rights	Distribution rights	Other	Total
Fiscal year 2009						
Opening balance	16,030	373,908	737	787	509	391,971
Purchases	1,957	–	–	–	–	1,957
Increase through business combinations	–	61,154	1,498	–	–	62,652
Amortization	–	–	–486	–787	–146	–1,419
Impairment	–	–1,958	–	–	–	–1,958
Exchange-rate differences	–	–6,074	–130	–	–	–6,204
Closing carrying amount	**17,987**	**427,030**	**1,619**	**0**	**363**	**446,999**
At December 31, 2009						
Cost	17,987	435,062	13,265	2,707	729	469,750
Accumulated amortization and impairment	–	–8,032	–11,646	–2,707	–366	–22,751
Carrying amount	**17,987**	**427,030**	**1,619**	**0**	**363**	**446,999**
Fiscal year 2010						
Opening balance	17,987	427,030	1,619	0	363	446,999
Purchases	–	–	–	–	–	–
Increase through business combinations	–	–	–	–	–	–
Amortization	–	–	–495	–	–145	–640
Impairment	–	–34,894	–	–	–	–34,894
Adjustment of additional purchase price	–308	–	–	–	–	–308
Exchange-rate differences	–	–3,649	–91	–	–	–3,740
Closing carrying amount	**17,679**	**388,487**	**1,033**	**0**	**218**	**407,417**
At December 31, 2010						
Cost	17,987	435,062	13,265	2,707	729	469,750
Accumulated amortization and impairment	–308	–46,575	–12,232	–2,707	–511	–62,333
Carrying amount	**17,679**	**388,487**	**1,033**	**0**	**218**	**407,417**
Fiscal year 2011						
Opening balance	17,679	388,487	1,033	0	218	407,417
Purchases	–	–	–	–	–	–
Increase through business combinations	16,025	–	–	–	–	16,025
Amortization	–	–	–310	–	–146	–456
Impairment	–	–271,238	–	–	–	–271,238
Exchange-rate differences	–256	–639	14	–	–	–881
Closing carrying amount	**33,448**	**116,610**	**737**	**0**	**72**	**150,867**
At December 31, 2011						
Cost	33,448	435,062	13,265	2,707	729	485,211
Accumulated amortization and impairment	–	–318,452	–12,528	–2,707	–657	–334,344
Carrying amount	**33,448**	**116,610**	**737**	**0**	**72**	**150,867**

Goodwill at December 31, 2011

A goodwill item arose following the acquisition of Noster System AB in 2006. It corresponded to a cash-generating unit in Kibion's sale of breath tests for diagnosing the stomach ulcer bacterium Helicobacter pylori.

In 2007, a joint risk company was set up in conjunction with ProStrakan Group plc, creating a further item of goodwill. The joint venture, Prostrakan AB, holds the Nordic sales rights for some of both companies' pharmaceuticals. The company is considered a cash-generating unit.

I August 2011, Orexo's subsidiary Kibion AB acquired the German company Wagner Analysen Technik GmbH. In connection with acquisition, an additional goodwill item arose. Wagner Analysen Technik GmbH is a leading manufacturer of IRIS instruments and substrates for diagnostic breath tests.

Goodwill	2011	2010
Noster System	10,639	10,639
Prostrakan	7,042	7,042
Wagner Analysen Technik	15,767	–
	33,448	**17,681**

Impairment testing of goodwill

Impairment testing for goodwill is performed annually and when there are indications of an impairment requirement. Recoverable amounts for cash-generating units are determined based on value in use. Impairment testing is applied at the lowest level at which separable cash flows can be identified.

An annual test of the impairment requirement for the goodwill item attributable to the acquisition of Noster System AB has been carried out. Recoverable amounts for the cash-generating operations are calculated based on estimated future cash flows. Cash flow for 2012 is based on budget. Cash flows for the period 2013–2015 are based on Executive Management's forecasts, assessments and market plans. Cash flows beyond this period are extrapolated on the basis of an estimated growth rate of 2.5 percent (2.5), which is based on management's expectations for market development. The assessment of operating margins is based on previously achieved results combined with management's expectations of market trends. Future cash flows were discounted to the present value by applying a rate of 12 percent (15). The estimated value in use exceeds the carrying amount by a comfortable margin.

Impairment testing of the goodwill attributable to Prostrakan took place by calculating the recoverable amount based on estimated future cash flows for the period 2012–2016. These assessments were based on achieved results, budgets, forecasts and market plans and are grounded in an increase in sales of 25 percent during year one, after which the rate of growth is anticipated to fall to 20 percent in year two and 15 percent

in year three, then to approximately 5 percent per year thereafter. The operating margins applied in the calculation of value in use are based on earlier results and management's expectations for market development. Future cash flows were restated at present value based on a discount rate of 12 percent (12). The estimated value in use exceeds the carrying amount.

Impairment testing of the goodwill attributable to the subsidiary acquired during the year, Wagner Analysen Technik GmbH, was carried out. Recoverable amounts for the cash-generating operations are calculated based on estimated future cash flows. Cash flow for 2012 is based on budget. Cash flows for the period 2013–2015 are based on Executive Management's forecasts, assessments and market plans. Cash flows beyond this period are extrapolated on the basis of an estimated growth rate of 2.5 percent, which is based on management's expectations for market development. The assessment of operating margins is based on previously achieved results combined with management's expectations of market trends. Future cash flows were discounted to the present value by applying a rate of 12 percent. The estimated value in use exceeds the carrying amount.

This discount rate is set based on risk-free interest with an additional risk premium for the business area in question.

The sensitivity of goodwill items to changes in estimated discount rates is low. The discount rate could be raised by 2 percentage points without leading to any impairment requirement for the goodwill items.

Acquired research and development at December 31, 2011

Acquired research and development amounted to SEK 116,610m (388,487) divided between SEK 106,200m (338,707) attributable to the acquisition of Biolipox AB in 2007 and SEK 10,410m (49,780) attributable to the acquisition of PharmaKodex Ltd in 2009.

When an acquired research project begins to generate sales revenues or royalties, planned amortization begins over the expected useful life. The acquired R&D projects have not yet begun to generate such revenues and thus no amortization was applied.

Impairment testing of acquired R&D

The value of acquired R&D projects is tested once a year to determine any impairment requirements, and also on other occasions if indications of impairment emerge. As with previous years, the recoverable amount was calculated per acquired R&D project. The calculations were performed on the basis of an assessment of future cash flows, with the key variables comprising license revenues, residual development costs, royalties and gross margins. Future cash flows were adjusted in line with the probability estimate applied as the available industry standard, and subsequently calculated at present value. The present value calculation was performed on the basis of a discount rate, which was set by Executive Management at 12 percent (12).

Research and drug development are characterized by significant operative risks. The risk that a project will not result in a product that reaches the market diminishes as the project passes through the various phases of the development process. The R&D projects acquired by the company are all in the early phases. If a project is closed down, the result is impairment and removal of the project from the balance sheet. During the year, acquired R&D was impaired by SEK 271.2m. Of this amount, SEK 232.5m relates to the terminated research collaboration with Janssen, for which final agreement was reached in January 2012. The agreement confirms the uncertainty of the value that existed at the closing date, which is why the impairment was charged to earnings for 2011. The remainder of the impairment amount totaling SEK 38.7m is due to the selection of formulation made for the proprietary development project OX219, in its entirety attributable to PKX219, which was included in the acquisition of PharmaKodex. The Board of Directors has deemed the probability of being able to license or divest these projects as low and has thus determined the net realizable value as zero. These project are currently being discontinued.

The sensitivity to changes in certain variables was analyzed to support impairment testing. If the discount rate were to increase by 2 percentage points, the recoverable amounts would continue to exceed the carrying amounts by a healthy margin. If the SEK were to strengthen by 10 percent against the USD and EUR, the recoverable amount of the acquired R&D projects would decline, but not to the extent that any impairment would be required. Regarding the other underlying variables, Executive Management believes that these variables may change within reasonably conceivable limits without the recoverable amount falling below the carrying amount.

Parent Company	**2011**	**2010**	**2009**
Accumulated cost			
Opening cost	9,308	9,308	9,308
Rights acquired during the year	–	–	–
Disposals and scrapping	–	–	–
Closing accumulated cost	9,308	9,308	9,308
Accumulated amortization according to plan			
Opening amortization according to plan	–9,090	–8,945	–8,799
Amortization for the year according to plan	–146	–145	–146
Disposals and scrapping	–	–	–
Closing accumulated amortization according to plan	–9,236	–9,090	–8,945
Carrying amount	**72**	**218**	**363**

Parent Company intangible assets comprise patents, rights and IT systems.

NOTE 9 DEPRECIATION/AMORTIZATION AND IMPAIRMENT

	Group			**Parent Company**		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Tangible fixed assets				,		
Sales	75	48	265	8	12	12
Administration	2,554	2,842	688	2,554	2,842	688
Research and development	4,749	4,439	6,508	4,679	4,293	6,350
Total tangible fixed assets	**7,378**	**7,329**	**7,461**	**7,241**	**7,147**	**7,050**
Intangible assets						
Sales	132	303	1,089	–	–	–
Administration	146	145	146	146	145	146
Research and development	178	193	184	–	–	–
Other operating expenses	271,238	25,794	1,958	–	–	–
Total intangible assets	**271,694**	**26,435**	**3,377**	**146**	**145**	**146**
Total depreciation/amortization and impairment	**279,072**	**33,764**	**10,838**	**7,387**	**7,292**	**7,196**

NOTE 10 SHARES IN SUBSIDIARIES AND JOINT VENTURES

Holding Dec 31, 2011	Corp.Reg.No.	Reg. office	Number of shares	Shareholding	Cost	Accumulated cost	Carrying amount
Pharmacall AB	556569-1739	Uppsala	1,000	100%	100	0	100
Kibion AB	556610-9814	Uppsala	321,279	100%	38,172	38,172	0
Noster System AB	556530-9217	Uppsala	606,520	100%	10,600	9,888	712
Prostrakan AB	556662-3038	Uppsala	1,000	50%	18,296	0	18,296
Biolipox AB	556588-3658	Stockholm	12,883,944	100%	505,773	335,944	169,829
Orexo UK	6619806	UK	1	100%	0	0	0
Pharmakodex Ltd	05268159	UK	684,664	100%	82,245	40,382	41,863
Wagner Analysen Technik GmbH	20929	Germany	6	100%	14,303	0	14,303
Orexo US	0101013414	USA	100	100%	0	0	0

Noster System AB and Wagner Analysen Technik GmbH comprise indirect holdings.

In 2011, shares in subsidiaries were impaired by SEK 374.6m. These impairments are related, in part, to the impairment of goodwill on consolidation of acquired R&D and, in part, to the reduction in Biolipox AB's statutory reserve, which was adjusted downward and repaid to the Parent Company, after which the Parent Company's shares in subsidiaries were impaired by the same amount.

Change in carrying amount

2009	Opening carrying amount	Cost	Capital contribution	Impairment	Closing carrying amount
Pharmacall AB	100	–	–	–	100
Kibion AB	–	–	–	–	–
Prostrakan AB	18,296	–	–	–	18,296
Biolipox AB	505,773	–	–	–	505,773
Orexo UK	–	–	–	–	–
Pharmakodex Ltd	–	82,245	–	–	82,245
Total	**524,169**	**82,245**	**–**	**–**	**606,414**

2010					
Pharmacall AB	100	–	–	–	100
Kibion AB	–	–	–	–	–
Prostrakan AB	18,296	–	–	–	18,296
Biolipox AB	505,773	–	–	–	505,773
Orexo UK	–	–	–	–	–
Pharmakodex Ltd	82,245	–	–	1,651	80,594
Total	**606,414**	**–**	**–**	**1,651**	**604,763**

2011					
Pharmacall AB	100	–	–	–	100
Kibion AB	–	–	–	–	–
Prostrakan AB	18,296	–	–	–	18,296
Biolipox AB	505,773	–	–	335,944	169,829
Orexo UK	–	–	–	–	–
Pharmakodex Ltd	80,594	–	–	38,731	41,863
Total	**604,763**	**–**	**–**	**374,675**	**230,088**

NOTE 11 FINANCIAL INSTRUMENTS BY CATEGORY

December 31, 2011	Assets at fair value in profit or loss	Loans and accounts receivable	Other financial liabilities	Total
Assets in the balance sheet				
Accounts receivable and other receivables (excluding interim receivables)		56,853		56,853
Cash and cash equivalents		246,859		246,859
Total		**303,712**		**303,712**
Liabilities in the balance sheet				
Borrowing (excluding liabilities in respect of financial leasing)			120,933	120,933
Accounts payable and other liabilities (excluding non-financial liabilities)			52,479	52,479
Total			**173,412**	**173,412**

December, 31 2010				
Assets in the balance sheet				
Accounts receivable and other receivables (excluding interim receivables)		99,211		99,211
Cash and cash equivalents		135,798		135,798
Current investments		–		–
Total		**235,009**		**235,009**
Liabilities in the balance sheet				
Borrowing (excluding liabilities relating to financial leasing)			103,900	103,900
Accounts payable and other liabilities (excluding non-financial liabilities)			103,631	103,631
Liabilities relating to financial leasing			–	–
Total			**207,531**	**207,531**

December 31, 2009				
Assets in the balance sheet				
Accounts receivable and other receivables (excluding interim receivables)		31,758		31,758
Cash and cash equivalents		87,414		87,414
Current investments				
Total		**119,172**		**119,172**
Liabilities in the balance sheet				
Accounts payable and other liabilities (excluding non-financial liabilities)			37,205	37,205
Liabilities relating to financial leasing				
Total			**37,205**	**37,205**

NOTE 12 INVENTORIES

	Group			Parent Company		
	2011	2010	2009	2011	2010	2009
Raw materials	18,426	4,067	4,589	15,555	2,529	1,385
Finished products	8,263	3,898	3,851	–	–	–
Total	**26,689**	**7,965**	**8,440**	**15,555**	**2,529**	**1,385**

Group
The cost of inventories expensed is included in the item "Cost of goods sold" and research and development costs and amounted to SEK 28,997 (26,321) (23,650). During the year, inventories were impaired in the amount of SEK 0.

Parent Company
The cost of inventories expensed is included in the item "Cost of goods sold" and research and development costs and amounted to SEK 15,555 (2,529) (1,385).

NOTE 13 ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	Group			Parent Company		
	2011	2010	2009	2011	2010	2009
Accounts receivable	56,853	99,211	31,758	51,847	46,554	64,531
VAT receivable	8,906	6,458	9,068	1,570	163	–
Other receivables	4,784	5,433	9,067	19,622	16,748	3,487
Prepaid rents	5,294	4,922	4,835	5,270	4,918	4,811
Other interim receivables	6,609	3,822	5,939	42,529	65,603	4,628
Total	**82,446**	**119,846**	**60,667**	**120,838**	**133,986**	**77,457**

Group
Impairment losses on accounts receivable amounted to SEK 53 (141) (2,127). There have been no impairments of remaining accounts receivable. Carrying amount corresponds to fair value since all receivables are current and are due within one year.

Parent Company
Impairment losses on accounts receivable amounted to SEK 0 (69) (0). There have been no impairments of remaining accounts receivable. Carrying amount corresponds to fair value.

Carrying amounts per currency for the Group's accounts receivable are as follows:

	Group			Parent Company		
	2011	2010	2009	2011	2010	2009
SEK	3,026	12,612	14,002	32,511	34,047	52,541
USD	23,263	7,178	1,572	1,009	–	1,276
EUR	30,032	78,855	15,821	18,327	12,507	10,714
Other currencies	532	566	363	–	–	–
Total	**56,853**	**99,211**	**31,758**	**51,847**	**46,554**	**64,531**

Accounts receivable due
At December 31, 2011, accounts receivable amounting to SEK 19,149 (10,908) (3,462) fell due for payment without any impairment requirement being considered necessary. These apply to a few independent customers who have previously settled their overdue invoices. An age analysis of these accounts receivable is presented below:

	Group			Parent Company		
	2011	2010	2009	2011	2010	2009
Less than 43 days	3,324	9,614	2,879	814	0	1,603
44 days and older	15,825	1,294	583	–	0	–
Total	**19,149**	**10,908**	**3,462**	**814**	**0**	**1,603**

Credit quality of financial assets
The credit quality of financial assets that have neither fallen due for payment nor are in need of impairment can be assessed by referring to an external credit rating (if available) or to the counterparty's payment history:

	Group			Parent Company		
	2011	2010	2009	2011	2010	2009
Counterparties without external credit rating	56,853	99,211	31,758	51,847	46,554	64,531
Total accounts receivable without impairment requirement	**56,853**	**99,211**	**31,758**	**51,847**	**46,554**	**64,531**

NOTE 14 CASH AND CASH EQUIVALENTS

	Group			Parent Company		
	2011	2010	2009	2011	2010	2009
Cash and bank balances	246,859	135,798	87,414	227,850	101,400	12,790
Total	**246,859**	**135,798**	**87,414**	**227,850**	**101,400**	**12,790**

Financial assets in the form of current investments are recognized at fair value in profit or loss.

Credit quality of financial assets
The credit quality of financial assets that have neither fallen due for payment nor are in need of impairment can be assessed by referring to an external credit rating (if available) or to the counterparty's payment history:

	Group			Parent Company		
	2011	2010	2009	2011	2010	2009
A1-	246,859	135,798	87,414	227,850	101,400	12,790
Total bank balances and short-term bank deposits	**246,859**	**135,798**	**87,414**	**227,850**	**101,400**	**12,790**

NOTE 15 SHARE CAPITAL AND OTHER CAPITAL CONTRIBUTIONS

Shares outstanding
As of December 31, 2011, the number of share outstanding in the company was 29,865,495, of which all were common shares. All shares carry one voting right. The quotient value of each share is SEK 0.4. The change in the number of shares during the year is shown in the table below. All shares issued are fully paid. Orexo does not hold any treasury shares.

Shares outstanding on December 1, 2009	**21,617,395**
Subscription for shares through exercise of employee stock options	6,084
Newly issued shares in connection with the acquisition of PharmaKodex Ltd	1,777,773
Shares outstanding on December 31, 2009	**23,401,252**
Subscription for shares through exercise of employee stock options	2,500
Shares outstanding on December 31, 2010	**23,403,752**
Subscription for shares through exercise of employee stock options	23,555
New share issue	6,438,188
Shares outstanding on December 31, 2011	**29,865,495**

Authorization from the Annual General Meeting
At the Annual General Meeting on April 7, 2011, the Board received authorization to issue new shares against cash payment, through offsetting or by capital contributed in kind. However, such a share issue may not result in the company's share capital or number of shares in the company at any given time increasing by more than a total of 10 percent, or result in the company's share capital exceeding the highest share capital permitted at any given time in accordance with the Articles of Association.

Development of share capital

Year	Transaction	Change in number of shares	Change in share capital (SEK)	Total number of shares	Total share capital (SEK)	Quotient value (SEK)
1994	Formation of company	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
2005	New issue[9]	20,250	8,100	13,292,500	5,317,000	0.4
2006	New issue[10]	592,250	236,900	13,884,750	5,553,900	0.4
2007	New issue[11]	101,750	40,700	13,986,500	5,594,600	0.4
2007	New issue[12]	7,630,895	3,052,358	21,617,395	8,646,958	0.4
2009	New issue[13]	6,084	2,434	21,623,479	8,649,392	0.4
2009	New issue[14]	1,777,773	711,109	23,401,252	9,360,500	0.4
2010	New issue[15]	2,500	1,000	23,403,752	9,361,500	0.4
2011	New issue[16]	23,555	9,422	23,427,307	9,370,922	0.4
2011	New issue[17]	6,438,188	2,575,275	29,865,495	11,946,197	0.4

[1] New issue of preference shares of series P1 directed to HealthCap 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 common 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 on August 5, 2004. The subscription price was SEK 19,611.4 per share.

[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 main shareholders pursuant to a resolution of the Board of Director on 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 adopted by the Annual General Meeting held on April 20, 2005, and was implemented in connection with the listing in November 2005.
[8] New issue implemented in connection with the listing in November 2005.
[9] New issue of 9,750 shares through issue of 39 warrants at a subscription price of SEK 9.20 per share and new issue of 10,500 shares through the exercise of 42 warrants at a subscription price of SEK 12.70 per share.
[10] New issue of 269,000 shares through exercise of 1,076 employee stock options, new issue of 281,500 shares through exercise of 1,126 warrants and new issue of 41,750 shares through the exercise of 167 hedge options.
[11] New issue of 42,500 shares through the exercise of 170 employee stock options and a new issue of 59,250 shares through the exercise of 237 warrants.
[12] New issue in connection with the acquisition of Biolipox AB in November 2007.
[13] New issue of 5,750 shares through the exercise of 23 warrants and new issue of 334 shares through the exercise of 334 warrants.
[14] New issue in connection with the acquisition of PharmaKodex Ltd.
[15] New issue of 2,500 share through the exercise of 10 employee stock options.
[16] New issue of 23,555 shares through the exercise of 23,555 employee stock options.
[17] New issue of 6,438,188 shares at a subscription price of SEK 38 per share. One share in Orexo provides entitlement to one subscription right, four subscription rights provide entitlement to subscription for one new share.

Share-based payments

Orexo has introduced share-based payments in the form of employee stock options and warrants designed to motivate and reward through ownership, thereby promoting the company's long-term interests. Since 2002, a total of just over 100 people have participated in the incentive programs of the Group companies (Orexo AB and Biolipox AB).

Ownership rights to the warrants have been transferred on commercial terms to employees or other participants in the incentive program directly through allotment, while the stock options are vested in the form of one-third, one-fourth or one-fifth of the number of allotted options on each of the first three, four or five anniversary dates of the allotment date, provided that the holder remains employed or is a Board member in Orexo on this date.

At December 31, 2011, there were a total of 2,299,538 options outstanding, providing an entitlement to subscription of 2,180,422 new share in Orexo and the exchange of 119,116 options against shares in Orexo1). Each option issued by Biolipox AB provides entitlement to exchange it for one share in Orexo AB and a corresponding number of shares are held by the independent company Pyrinox AB.

The table below shows a summary of the changes in the number of options outstanding during the period January 1, 2011 to December 31, 2011, split across each category.

	Opening Jan 1, 2011	Change	Closing Dec 31, 2011	Redeemable
Options directed at employees				
Of which:				
Approved and allotted employee stock options	719,566		719,566	
Exercised		–9,000	–9,000	
Forfeited		–219,150	–219,150	
Allotted		975,000	975,000	
Total			**1,466,416**	**436,874**
Approved and allotted Board stock options	60,920		60,920	
Allotted May 2011		14,641	14,641	
Exercised		–14,555	–14,555	
Total			**61,006**	**27,407**
Approved and allotted warrants	10,000		10,000	
Total			**10,000**	**10,000**
Approved, unallotted employee stock options	470,000	–470,000	0	
Approved at the 2011 EGM[3]		565,000	565,000	
Total			**565,000**	
Warrants held by subsidiaries for cash flow hedging of social security fees	78,000		78,000	
Total			**78,000**	**78,000**
Total options directed at employees	**1,338,486**	**841,936**	**2,180,422**	
Employee stock options utilized from Biolipox (non-diluting, included in newly issued shares in conjunction with acquisition of Biolipox)	117,582		117,582	
Forfeited		–8,651	–8,651	
Exercised		–33,988	–33,988	
Warrants utilized from Biolipox for cash flow hedging of social security fees (non-diluting)	61,873	–17,700	44,173	
Total options from Biolipox	**179,455**	**–60,339**	**119,116**	**119,116**
Total outstanding options	**1,517,941**	**781,597**	**2,299,538**	

The average exercise price during the year was SEK 2.97 per share.

[1] All information regarding options issued by Orexo AB has been restated to take into account the 1:250 share split conducted in November 2005. The 2005 Annual Report states that older option certificates provide entitlement to subscribe for 250 shares after the split. The reported data regarding options issued by Orexo AB refer to the number of shares to which each option provides entitlement to subscribe for shares following the share split. All data regarding options issued by Biolipox AB are restated using a factor of 0.45854, which corresponds to the computed value of the options related to the share price for the Orexo share on the acquisition date. The reported data regarding the options issued by Biolipox refers to the number of shares for which each option may be exchanged after recalculation.
[2] Pertains to supplementary purchase consideration for the acquisition of Biolipox. These warrants could have been utilized if certain events had occurred prior to December 31, 2009. However, these events did not occur, which is why the warrants expired on January 1, 2010.
[3] These options were approved at the General Meeting held in February 2011, but have not yet been allotted.

Average subscription price per category

Category	Outstanding, Jan 1, 2011	Additional	Allotted	Redeemed	Forfeited	Outstanding, Dec 31, 2011	Redeemable
Employee stock options [1], Orexo AB	52.1	–	41.6	17.4	49.6	45.6	53.5
Board options, Orexo AB	0.4	–	0.4	0.4	–	0.4	0.4
Warrants, Orexo AB	12.7	–	–	–	–	12.7	12.7
Hedge options, Orexo AB	9.2	–	–	–	–	9.2	9.2
Employee stock options, Biolipox AB	0.25	–	–	0.25	0.25	0.25	0.25
Hedge options, Biolipox AB	0.25	–	–	0.25	–	0.25	0.25

[1] In calculating the average exercise price, options not yet allotted have not been included as no exercise price for these has been set. 470,000 options related to the 2009/2019 program, which has now been cancelled. 565,000 options relate to the 2011/2021 program, see the preceding table.

During the period January – December 2011, 23,555 employee stock options from Orexo's options programs were exercised. During the same period, 33,988 of Biolipox's employee share options were exercised, entailing that the holders exchanged their options for 33,988 Orexo shares, which had been held by the independent company Pyrinox AB. The exercise of options did not require the issue of additional shares by Orexo.

Allocations during the year

In 2011, Orexo introduced a performance-based, long-term incentive program which, prior to exercise, includes performance shares providing entitlement to subscribe for a total of 1,540,000 shares in Orexo. The right to acquire new shares through exercise of performance shares shall, for each employee, be subject to vesting criteria. Of the total number of performance shares allocated, 50 percent of the performance shares shall be vested according to time and internal operational criteria ("time-vested performance shares") and 50 percent shall be vested according to share price performance and relative share performance ("share-price vested performance shares"). Of these performance shares, 500,000 were allocated free of charge to the President in March 2011, 245,000 performance shares were allocated free of charge to senior managers in April 2011 and 230,000 performance shares were allocated to senior executives in October 2011. Of these performance shares, 487,500 are time-vested and 487,500 are share-price vested. Issue price for the performance shares allocated in March was established at SEK 44.40, the issue price for the performance shares issued in April was established at SEK 47.80 and the issue price for the performance shares issued in October was established at SEK 29. The final exercise date for the options is December 31, 2021.

The market value of the time-vested portion of the shares was determined using the Black&Scholes method, while the Monte Carlo method was used for the share-price vested portion. The market value of the options allocated in March is SEK 20.25 for the time-vested portion and SEK 13.37 for the share price vested portion. For the options allocated in April, the market value is SEK 19.19 for the time-vested portion and SEK 12.41 for the share-price vested portion and, for the options allocated in October, the market value is SEK 8.23 for the time-vested portion and SEK 6.15 for the share-price vested portion.

- risk-free rate of interest: 1.11–1.35 percent
- expected volatility: 35 percent
- estimated dividend: SEK 0

Performance criterion 1

For any vesting of Share-Price Vested Performance Shares to occur, the increase in the Share Price shall correspond to the amounts set forth below. The increase in the Share Price as set forth below shall be calculated for a period not exceeding five years, meaning that the Share Price must have been achieved within a continuous five-year period.

Increase in Share Price	Vesting percentage of Share Price Vested Performance Shares (also conditional upon the fulfillment of Performance Criterion 2 below)
> 60 percent	33 percent
> 100 percent	66 percent
> 150 percent	100 percent

These categories correspond to a five-year average return performance of approximately 10 percent, 15 percent and 20 per cent per annum, respectively.

Performance criterion 2

In addition to satisfaction of Performance Criterion 1, for any vesting to occur, the Share Price shall have outperformed the NASDAQ OMX Stockholm Biotechnology PI Index for a 90-day period immediately prior to such day when Performance Criterion 1 above is satisfied. The determination of satisfaction of Performance Criterion 2 shall be made continuously as long as Performance Criterion 1 is satisfied, where the above-mentioned 90-day period shall be the period immediately prior to each such determination.

The Board shall have the possibility to determine that Performance Shares have not been vested to the extent that it has been established that vesting has occurred on the basis of manifestly misstated information.

In May 2011, 14,641 Board options were allotted, providing entitlement to a total of 14,641 shares in Orexo. These Board options have been allotted free of charge to Board members elected at the 2011 Annual General Meeting. Vesting takes the form of one-fourth on the date after the publication of Orexo's interim report for Q1 and one-fourth after the publication of the interim reports for each of the quarters from Q2 to Q4 during the mandate period for the 2011 fiscal year. Board members' right to request exercise comes into effect from two years after the 2011 Annual General Meeting onwards. The final exercise date for Board options is December 31, 2018 and the subscription price amounts to SEK 0.40 per share. The market value, computed using the Black & Scholes method, totaled SEK 43.33 per option on the allotment date. Volatility is based on the estimated future volatility of the share at the valuation date using the historical volatility of the company and other companies with similar operations as a basis.

- share price: SEK 43.70
- lifetime: seven years
- exercise price on subscription: SEK 0.40
- risk-free rate of interest: 1.52 percent
- expected volatility: 35 percent
- estimated dividend: SEK 0

Forfeited options

During the year, the Board resolved to forfeit options and deregister warrants at the Swedish Companies Registration Office that provided entitlement to 219,150 shares, which reduces the dilution in conjunction with full exercise of all outstanding warrants by about 0.7 percentage points. The forfeited options refer to non-vested options to employees and Board members who terminated their employment and will thus be unable to exercise them. Also during 2011, 8,651 of Biolipox's employee stock options were forfeited, which also involved non-vested options to employees who had terminated their employment and were thus unable to exercise the options.

Allotment of options, 2002–2011 – distribution by employee category

The total allotment within Orexo's employee options program for the years 2002–2011, including options allotted within Biolipox ahead of its acquisition – for subscription for a total of 2,224,555 shares is distributed as follows:

- Board members: 157,690 shares, for which subscription has been made for 29,147 shares.
- President/CEO: 500,000 shares, for which subscription has been made for 0 shares.
- Other senior executives: 527,500 shares, for which subscription has been made for 0 shares.
- Other employees: 1,039,365 shares, for which subscription has been made for 593,043 shares.

Allotment of warrants for the period 2002–2011, providing entitlement to a total of 376,250 shares, is distributed as follows:

- Board members: 139,500 shares, for which subscription has been
- made for all shares.
- President/CEO: 164,250 shares, for which subscription has
- been made for all shares.
- Other senior executives: 0 shares
- Other employees: 72,500 shares, for which subscription has been
- made for 57,250 shares.

Costs related to company option programs
The company's expenses for the employee stock option program for the full-year 2011 amounted to SEK 3.1m (3.3). Of these expenses, SEK 2.7m (2.7) is attributable to administrative personnel, SEK 0.2m (0.5) to research and development personnel and SEK 0.2m (0.1) to sales-related personnel.

The expenses for the programs pertain both to estimated costs for the value of the employee vesting during the period, marked-to-market at the time of allotment, as well as the vested portion during the period of the estimated payroll overhead on the changes in value. The company will need to pay social security fees on the gain that may arise in conjunction with the exercise of employee stock options, calculated as the difference between the exercise price of the stock option and the market value of the share.

The social security fees that could arise as a result of the employee stock option program have financially and, thus, for cash flow purposes, largely been hedged through the issue of warrants to one of Orexo's subsidiaries. This hedging does not qualify for hedge accounting in accordance with IFRS.

Detailed description of changes during the year
The table below provides a detailed description of Orexo's share-based incentive program in respect of changes during the year, subscription prices, lifetimes and potential dilution.

Type of security	Number of shares to which securities provide entitlement at Jan 1, 2011[1]	Supplement during the year	Allotment during the year	Redeemed during the year	Forfeited during the year	Number of shares to which securities provide entitlement at Dec 31, 2011	Subscription price (SEK)	Program runs until	Number of shares and voting rights[2]
Approved and allotted options									
Employee stock options 2002	38,750	–	–	–750	–	38,000	9.2	Dec 31, 2012	
Employee stock options 2003	2,500	–	–	–	–	2,500	12.7	Dec 31, 2013	
Employee stock options 2004	70,750	–	–	–8,250	–	62,500	18.1	Jun 6, 2014	
Employee stock options 2005:I	6,750	–	–	–	–	6,750	18.1	Dec 31, 2013	
Employee stock options 2005/2006[3]	39,100	–	–	–	–	39,100	113	Dec 31, 2015	
Employee stock options 2006/2016[4]	58,425	–	–	–	–5,150	53,275	119	Dec 31, 2016	
Employee stock options 2007/2017	220,666	–	–	–	–95,000	125,666	44	Dec 31, 2017	
Employee stock options 2008/2018	37,500	–	–	–	–37,500	0	56	Dec 31, 2018	
Board stock options 2008/2015	12,845	–	–	–1,624	–	11,221	0.4	Dec 31, 2015	
Employee stock options 2008/2018	245,125	–	–	–	–81,500	163,625	51	Dec 31, 2018	
Board stock options 2009/2016	22,362	–	–	–6,176	–	16,186	0.4	Dec 31, 2016	
Board stock options 2010/2017	25,713	–	–	–6,755	–	18,958	0.4	Dec 31, 2017	
Board stock options 2011/2018		14,641	–	–	–	14,641	0.4	Dec 31, 2018	
Subscription options	**10,000**	**–**	**–**	**–**	**–**	**10,000**	**12.7**	Dec 31, 2013	
Performance-based incentive program 2011/2021		500,000	–	–		500,000	44.4	Dec 31, 2021	
Performance-based incentive program 2011/2021		245,000	–	–		245,000	47.8	Dec 31, 2021	
Performance-based incentive program 2011/2021		230,000	–	–		230,000	29	Dec 31, 2021	
Subtotal	**790,486**	**989,641**	**–**	**–23,555**	**–219,150**	**1,537,422**			
Approved, unallotted options									
Employee stock options 2009/2019	470,000	–	–	–	–470,000	0	–	Dec 31, 2019	
Performance-based incentive program 2011/2021		565,000	–	–	–	565,000	–	Dec 31, 2021	
Options intended for the hedging of social security fees[5]									
Hedge options intended for hedging employee stock options	78,000	–	–	–	–	78,000	9.2	Dec 31, 2012	
Subtotal	**1,338,486**	**1,554,641**	**–**	**–23,555**	**–689,150**	**2,180,422**			
Options attributable to the acquisition of Biolipox									
Employee stock options BX OP III	2,064	–	–	–	–2,064	0	0.25	Dec 31, 2010	Undiluted
Employee stock options BX OP IV	1,146	–	–	–	–1,146	0	0.25	Dec 31, 2010	Undiluted
Employee stock options BX OP V	8,599	–	–	–7,566	–	1,033	0.25	Dec 31, 2014	Undiluted
Employee stock options BX OP VII	59,120	–	–	–	–	59,120	0.25	Dec 31, 2015	Undiluted
Employee stock options BX OP VIII	23,503	–	–	–11,235	–228	12,040	0.25	Dec 31, 2015	Undiluted
Employee stock options BX OP IX	23,150	–	–	–15,187	–5,213	2,750	0.25	Dec 31, 2016	Undiluted
Hedge options	61,873	–	–	–	–17,700	44,173	0.25	Dec 31, 2016	Undiluted
Subtotal	**179,455**	**–**	**–**	**–33,988**	**–26,351**	**119,116**			
Total number of securities in share-based incentive programs	**1,517,941**	**1,554,641**	**–**	**–57,543**	**–715,501**	**2,299,538**	**–**	**–**	

[1] The number of shares after the 250:1 share split conducted in November 2005.
[2] After full dilution through the exercise of warrants.
[3] Options corresponding to subscription for 66,950 shares from this program were transferred to the Employee stock options 2006/2016 program.
[4] Options corresponding to subscription for 66,950 shares to this program were transferred from the Employee stock options 2005/2006 program.
[5] Warrants held by Orexo's subsidiary Pharmacall AB and which are designed for the cash flow hedging of social security fees that may arise as a result of the employee stock option program.

Changes in number of outstanding options in 2010

	Opening Jan 1, 2010	Change	Closing Dec 31, 2010	Redeemable
Options directed at employees				
Of which:				
Approved and allotted employee stock options	876,316		876,316	
Exercised		–2,500	–2,500	
Forfeited		–154,250	–154,250	
Total			**719,566**	**468,613**
Approved and allotted Board stock options	35,207		35,207	
Allotted May 2010		25,713	25,713	
Total			**60,920**	**12,845**
Approved and allotted warrants	10,000		10,000	
Total			**10,000**	**10,000**
Approved, but not allotted stock options [3]	470,000		470,000	
Total			**470,000**	**–**
Warrants held by subsidiaries for cash flow hedging of social security fees[5]	78,000		78,000	
Total			**78,000**	**78,000**
Total options directed at employees	**1,469,523**	**–131,037**	**1,338,486**	**569,458**
Employee stock options utilized from Biolipox (non-diluting included in newly issued shares in conjunction with acquisition of Biolipox)	196,107		196,107	
Forfeited		–9,454	–9,454	
Exercised		–69,071	–69,071	
Warrants utilized from Biolipox for cash flow hedging of social security fees (non-diluting)	80,323	–18,450	61,873	
Total options from Biolipox	**276,430**	**–96,975**	**179,455**	**173,668**
Total options directed at employees	**1,745,953**	**–228,012**	**1,517,941**	**743,126**
Other options				
Warrants constituting supplementary purchase consideration for the acquisition of Biolipox AB[2]	926,000	–926,000	–	
Total outstanding options	**2,671,953**	**1,154,012**	**1,517,941**	**743,126**

Exercised during the year
For the January–December 2010 period, 2,500 employee stock options from Orexo's options programs were exercised. Also in January–December 2010, 69,071 of Biolipox's employee stock options were exercised, entailing that the holders exchanged their options for 69,071 Orexo shares, which had been held by the independent company Pyrinox AB. The exercise of options did not require Orexo to issue additional shares.

Allotment during the year
In May 2010, 25,713 Board options were allotted, providing entitlement to a total of 25,713 shares in Orexo. These Board options were allotted free of charge to Board members elected at the 2010 Annual General Meeting. Vesting takes the form of one-fourth on the day after the publication of Orexo's interim report for Q1 and one fourth after the publication of the interim reports for each of the quarters from Q2 to Q4 during the mandate period for the 2009 fiscal year. The Board members' right to request exercise comes into effect from two years after the 2010 Annual General Meeting onwards. The final exercise date for Board shares is December 31, 2017 and the subscription price amounts to SEK 0.40 per share. The market value, computed using the Black & Scholes method, totaled SEK 37.86. Volatility is based on the estimated future volatility of the share at the valuation date using the historical volatility of the company and other companies with similar operations as a basis.

- share price: SEK 38.20
- lifetime: seven years
- exercise price on subscription: SEK 0.40
- risk-free rate of interest: 1.52 percent
- expected volatility: 35 percent
- estimated dividend: SEK 0

Changes in number of outstanding options in 2009

	Opening Jan 1, 2009	Change	Closing Dec 31, 2009	Redeemable
Options directed at employees				
Of which:				
Approved and allotted employee stock options	651,075		651,075	
Allotted February 2009		329,500	329,500	
Exercised		–6,084	–6,084	
Forfeited		–98,175	–98,175	
Total			**876,316**	**346,606**
Approved and allotted Board stock options	12,845		12,845	
Allotted May 2009		22,362	22,362	
Total			**35,207**	**–**
Approved and allotted warrants	15,250		15,250	
Due		–5,250	–5,250	
Total			**10,000**	**10,000**
Approved, but not allotted employee stock options Opening balance approved at 2008 AGM	429,500		429,500	
Less allotment February 2009		–329,500	–329,500	
Less surrendered		–100,000	–100,000	
Approved at 2009 AGM		470,000	470,000	
Total			**470,000**	**–**
Warrants held by subsidiaries for cash flow hedging of social security fees	78,000		78,000	
Total			**78,000**	**78,000**
Total options directed at employees	**1,186,670**	**282,853**	**1,469,523**	**434,606**
Employee stock options utilized from Biolipox (non-diluting included in newly issued shares in conjunction with acquisition of Biolipox)	334,851	–138,744	196,107	170,294
Warrants utilized from Biolipox for cash flow hedging of social security fees (non-diluting)	130,374	–50,051	80,323	80,323
Total options from Biolipox	**465,225**	**–188,795**	**276,430**	**250,617**
Total options directed at employees	**1,651,895**	**94,058**	**1,745,953**	**685,023**
Other options				
Warrants constituting supplementary purchase consideration for the acquisition of Biolipox AB	926,000	–	926,000	926,000
Total outstanding options	**2,577,895**	**94,058**	**2,671,953**	**1,611,023**

Exercised during the year
For the period January–December 2009, 6,084 employee stock options from Orexo's options programs were exercised. During the same period, 131,065 of Biolipox's employee stock options were exercised, entailing that the holders exchanged their options for 131,065 Orexo shares, which had been held by the independent company Pyrinox AB. The exercise of options did not require Orexo to issue additional shares.

Allotment during the year
In February 2009, new employee stock options were allocated. After the submission of 100,000 options in April 2009, the distribution between employees was as follows:

- President/CEO: 30,000 shares
- Other senior executives: 120,000 shares
- Other employees: 179,500 shares

The redemption price is SEK 51 per share and the options may be exercised up to and including December 31, 2018. The vesting of employee stock options takes the form of one-third of the total allotted options on any of the three anniversary dates that arise immediately after February 25, 2009. The market value, calculated using the Black & Scholes method, totaled SEK 11.99 per option on the allotment date. Volatility is based on the estimated future volatility of the share at the valuation date using the historical volatility of the company and other companies with similar operations as a basis.

- share price: SEK 45.8
- lifetime: four years
- exercise price on subscription: SEK 51
- risk-free rate of interest: 1.86 percent
- expected volatility: 35 percent
- estimated dividend: SEK 0

In May 2009, 22,362 Board options were allotted, providing entitlement to a total of 22,362 shares in Orexo. These Board shares have been allotted free of charge to Board members elected at the 2009 Annual General Meeting. Vesting takes the form of one-fourth on the day after the publication of Orexo's interim report for Q1 and one-fourth after the publication of the interim reports for each of the quarters from Q2 to Q4 during the mandate period for the 2009 fiscal year. The Board members' right to request exercise comes into effect from two years after the 2009 Annual General Meeting onwards. The final exercise date for Board shares is December 31, 2016 and the subscription price amounts to SEK 0.40 per share. The market value, computed using the Black & Scholes method, totaled SEK 36.82 per option on the allotment date. Volatility is based on the estimated future volatility of the share at the valuation date using the historical volatility of the company and other companies with similar operations as a basis.

- share price: SEK 37.20
- lifetime: three years
- exercise price on subscription: SEK 0.40
- risk-free rate of interest: 1.74 percent
- expected volatility: 35 percent
- estimated dividend: SEK 0

NOTE 16 RESERVES

	Translation reserve	Total
Opening balance at January 1, 2009	**0**	**0**
Hedging of net investment	2,329	2,329
Exchange-rate differences	–7,574	–7,574
Opening balance at January 1, 2010	**–5,245**	**–5,245**
Exchange-rate differences	–3,524	–3,524
Opening balance at January 1, 2011	**–8,769**	**–8,769**
Exchange-rate differences	–671	–671
Closing balance at December 31, 2011	**–9,440**	**–9,440**

Note 17 PROVISIONS

	Group			Parent Company		
	2011	2010	2009	2011	2010	2009
Supplementary purchase consideration, Inflazyme	–	–	10,301	–	–	–
Estimated costs, social security fees, employee stock options	565	1,112	813	565	1,135	813
Total	**565**	**1,112**	**11,114**	**565**	**1,135**	**813**

In conjunction with the acquisition of Inflazyme in November 2007, a supplementary purchase consideration was agreed that would be conditional on certain goals being achieved. This consideration was previously recognized as a provision and contingent liability, as the latter is not deemed to be a likely payment in view of the development statistics for the drug. During the 2010 fiscal year, the Inflazyme project was downgraded, which means that the full supplementary purchase consideration is now recognized as a contingent liability, see Note 8.

Otherwise, provisions primarily refer to estimated costs for social security fees in respect of employee stock option programs, which have been recognized in accordance with UFR 7. The long-term portion of payroll expenses is recognized as provisions, the remaining portion recognized as a current liability.

NOTE 18 BORROWING

	Group			Parent Company		
	2011	2010	2009	2011	2010	2009
Bank loan, long-term portion	10,456	–	12,800	–	–	12,800
Convertible promissory notes	99,839	94,421	–	99,839,	94,421	–
Total	**110,295**	**94,421**	**12,800**	**99,839**	**94,421**	**12,800**

	Group			Parent Company		
	2011	2010	2009	2011	2010	2009
Bank loan, short-term portion	1,746	–	3,200	–	–	3,200
Convertible promissory notes	8,892	9,479	–	8,892	9,479	–
Total	**10,638**	**9,479**	**3,200**	**8,892**	**9,479**	**3,200**

During the year, the subsidiary Kibion AB raised a bank loan to finance the acquisition of Wagner Analysen Technik GmbH. The term of the bank loan ends on June 30, 2016 and the average interest rate is 3.5 percent per year. Collateral for the bank loan comprises a guarantee from the Parent Company amounting to SEK 11.3m, see Note 20.

The convertible issue was recognized in the liability and shareholders' equity portions, based on the fair value of the liability portion, with the division of both components being based on a commercial rate of interest amounting to 10.5 percent. Attributable transaction costs were distributed proportionally on both these components in relation to the distribution of the issue liquidity.

The convertible loan has a conversion price of SEK 47.50, which represents a premium of about 25 percent compared with the closing price on March 12, 2010 of SEK 37.90 and is allied with an option that entitles Orexo AB to convert the loan when the share price exceeds the conversion price by 50 percent during a specific period of time. The convertible loan has an annual interest rate of 8 percent. If the loan is not converted to shares, it must be repaid no later than March 31, 2015.

Convertible promissory notes are recognized in the balance sheet in accordance with the following:

Nominal value of convertible promissory notes issued April 7, 2010	**111,150**
Shareholders' equity portion	–10,005
Liability portion at issue April 7, 2010	95,167
Interest expense	8,733
Interest paid	–
Liability portion at December 31, 2010	**103,900**
Interest expense	11,774
Interest paid	–6,943
Liability portion at December 31, 2011	**108,731**

The fair value of the liability portion of the convertible promissory notes as of December 31, 2011 amounted to SEK 108,731.

NOTE 19 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	Group			Parent Company		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Accounts payable	27,323	25,478	18,064	21,108	21,147	13,064
VAT liability	129	225	4,131	–	–	4,131
Employee withholding tax	2,533	2,032	2,019	2,335	1,822	1,894
Deduction, social security fees	2,106	1,691	1,828	1,874	1,528	1,711
Deduction, special salary tax	3,251	3,612	3,573	2,993	3,089	3,055
Other current liabilities	15,247	11,562	9,370	116,273	134,957	6,886
Accrued salaries	3,479	5,910	1,000	2,828	5,629	384
Accrued vacation pay	8,352	7,121	8,438	7,553	6,648	7,778
Accrued social security fees	3,843	4,226	3,086	3,365	3,989	2,686
Other interim liabilities	51,852	78,153	15,459	42,431	69,571	14,185
Total	**118,115**	**140,010**	**66,968**	**200,760**	**248,380**	**55,774**

NOTE 20 PLEDGED ASSETS

	Group			Parent Company		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Chattel mortgages for overdraft facility	44,000	44,000	16,000	44,000	44,000	16,000
Pledging of all shares in Kibion AB	12,513	12,380	–	–	–	–
Total	**56,513**	**56,380**	**16,000**	**44,000**	**44,000**	**16,000**

NOTE 21 CONTINGENT LIABILITIES

	Group			Parent Company		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Capital adequacy guarantee, Pharmacall AB	–	–	–	–	1,000	1,000
Capital adequacy guarantee, Kibion AB	–	–	–	–	5,000	5,000
Guarantee, Swedish Customs	–	50	50	–	50	50
Supplementary purchase consideration, Inflazyme	45,503	45,679	37,771	–	–	–
Guarantee commitment	–	–	–	11,295	–	–
Total	**45,503**	**45,729**	**37,821**	**–**	**6,050**	**6,050**

In conjunction with the acquisition of Inflazyme, a supplementary purchase payment was agreed that would be conditional on certain goals being achieved. This consideration was initially recognized as a provision and contingent liability, as the latter was not deemed to be a likely payment in view of the development statistics for the drug. In 2010, the Inflazyme project was downgraded, which means that the full additional purchase consideration is now recognized as a contingent liability amounting to SEK 45.5m.

As cash flow hedging for social security fees in respect of employee stock options issued by Biolipox, warrants were issued to Pyrinox AB. Orexo has pledged to cover any deficits over and above that covered by the warrants for the duration until December 31, 2016.

The acquisition of the UK pharmaceutical company PharmaKodex includes conditional payments based on license revenues from PharmaKodex's current programs and technologies as well as certain milestone payments. These are not recognized as a liability since it is not probable that any payment will be made.

At year-end, Orexo had overdraft facilities of SEK 35m with Nordea, the collateral for which comprised chattel mortgages totaling SEK 44m and pledging of all shares in Kibion AB.

NOTE 22 DISTRIBUTION OF REVENUES

	Group			Parent Company		
	2011	2010	2009	2011	2010	2009
Sales, products	59,771	52,110	51,497	278	–	–
Royalties	72,568	43,492	18,472	72,568	43,492	18,472
License revenues	33,012	81,144	119,538	33,012	7,557	119,538
Partner-financed R&D costs	35,148	33,834	46,388	7,406	61,902	70,173
Other	–885	–81	209	27,508	–	–
Total	**199,614**	**210,499**	**236,104**	**140,772**	**112,951**	**208,183**

NOTE 23 COSTS BY TYPE OF COST

	Group			Parent Company		
	2011	2010	2009	2011	2010	2009
Raw materials and consumables	43,116	35,306	41,503	13,603	6,752	12,553
Other external costs	160,005	110,632	162,469	158,445	104,574	132,250
Personnel costs	117,605	120,315	128,619	103,527	106,261	105,518
Depreciation/amortization and impairment	279,072	33,764	10,838	46,117	8,944	7,196
Total	**599,798**	**300,017**	**343,429**	**321,692**	**226,531**	**257,517**

During the year, acquired R&D projects were impaired by SEK 271.2m. The impairments were related to the termination of the research collaboration with Janssen of SEK 232.5m, and SEK 38.7m based on the selection of formulation made for the proprietary development project OX219, in its entirety attributable to PKX219, which was included in the acquisition of PharmaKodex Ltd.

NOTE 24 AUDITORS' FEES

	Group			Parent Company		
	2011	2010	2009	2011	2010	2009
Audit assignment						
PWC	970	658	689	847	530	592
Deloitte	–	–	12	–	–	–
Silver Levene	114	147	150	–	–	–
Non-auditing assignments						
PWC	658	420	1,007	658	420	1,007
Tax advice						
PWC	387	291	305	387	291	305
Deloitte	–	84	–	–	–	–
Other services						
PWC	327	260	451	166	254	451
Total	**2,456**	**1,860**	**2,614**	**2,058**	**1,495**	**2,355**

NOTE 25 EXCHANGE-RATE DIFFERENCES

Operating profit includes exchange-rate differences on operating receivables and operating liabilities as follows:

	Group			Parent Company		
	2011	2010	2009	2011	2010	2009
Other operating income	6,233	7,746	6,026	1,597	4,136	2,822
Other operating expenses	–5,485	–4,741	–9,989	–1,454	–1,347	–6,203
Total	**748**	**3,005**	**–3,963**	**143**	**2,789**	**–3,381**

NOTE 26 FINANCIAL INCOME AND EXPENSES

	Group			Parent Company		
	2011	2010	2009	2011	2010	2009
Interest expense						
Bank loans	–177	–196	–186	–	–196	–186
Convertible promissory note	–11,774	–8,733	–	–11,774	–8,733	–
Group	–	–	–	–2,231	–456	–
Other	–231	–14	–43	–177	–14	–29
Interest income						
Bank	4,278	551	760	3,488	436	118
Group	–	–	–	267	70	113
Other	125	–	–	4	–	–
Financial expenses				–		
Impairment of shares in subsidiaries	–	–	–	–255,944	–	–
Other	–138	–295	–169	–	–295	–169
Financial income						
Exchange-rate gain, Inflazyne provision	–	1,201	–	–	–	–
Transactions, PharmaKodex acquisition	–	–	1,780	–	–	4,109
Total	**–7,917**	**–7,486**	**2,142**	**–266,367**	**–9,188**	**3,956**

Financial expenses in the Parent Company are attributable to the impairment of shares in subsidiaries.

NOTE 27 REMUNERATION TO EMPLOYEES

Average number of employees

Group	2011 Average number of employees	Of whom men	2010 Average number of employees	Of whom men	2009 Average number of employees	Of whom men
	110	43	105	39	124	45
Total for Group	**110**	**43**	**105**	**39**	**124**	**45**

Parent Company	2011 Average number of employees	Of whom men	2010 Average number of employees	Of whom men	2009 Average number of employees	Of whom men
	96	36	92	32	110	39
Total for Parent Company	**96**	**36**	**92**	**32**	**110**	**39**

	Group			Parent Company		
Costs and remuneration to all employees and Board	2011	2010	2009	2011	2010	2009
Salaries, remuneration and social security fees						
Salaries and other remuneration to the Board, President and executive management	16,286	22,648	15,233	14,935	21,335	13,967
Salaries and other remuneration to other employees	56,241	49,962	60,819	46,723	40,565	50,387
Pension cost for the Board, President and Executive Management[1]	2,596	4,186	2,726	2,273	3,926	2,366
Pension cost for other employees[1]	11,412	9,955	11,778	10,431	8,805	10,307
Social security fees for the Board, President and Executive Management	5,616	7,728	5,447	5,114	7,252	4,962
Social security fees for other employees[2]	18,824	18,709	21,313	15,968	16,030	18,121
Other personnel costs	9,710	8,202	15,769	8,897	6,024	9,333
Total	**120,685**	**121,390**	**133,085**	**104,341**	**103,937**	**109,443**

[1] Pertains in its entirety to defined-contribution pension plan.
[2] Of which SEK 1,028 (1,012) (448) pertains to estimated costs for social security fees for employee stock option program.

Principles for remuneration
Board fees, including fees to the Board Chairman and remuneration for work on Board Committees, are set by the shareholders at the Annual General Meeting.

Orexo's Remuneration Committee comprises Håkan Åström, Michael Shalmi and Raymond Hill. The Remuneration Committee convenes as needed and is charged with the task of preparing decision data for the Board regarding wages, salaries and bonuses, as well as the task of making decisions on certain issues regarding remuneration paid to the President and other senior executives who, in addition to the President, comprise five persons. The Remuneration Committee held two (two) meetings during the year.

Guidelines approved by the 2011 Annual General Meeting
Reasons
Orexo shall offer market terms so that the company can recruit and retain skilled personnel. Remuneration to Executive Management shall comprise fixed salary, variable remuneration, long-term incentive programs, pension and other customary benefits. Remuneration is based on the individual's commitment and performance in relation to previously established goals, individual goals and company-wide goals. Individual performance is continuously evaluated. Orexo shall offer market terms so that the company can recruit and retain skilled personnel. Remuneration to Executive Management shall comprise fixed salary, variable remuneration, long-term incentive programs, pension and other customary bene-

fits. Remuneration is based on the individual's commitment and performance in relation to previously established goals, individual goals and company-wide goals. Individual performance is continuously evaluated.

Fixed salary
Fixed salary is generally reviewed on an annual basis and shall be based on the qualitative performance of the individual. The fixed salary of the President and other senior executives shall be in line with market conditions.

Variable remuneration
Variable remuneration shall take into account the individual's level of responsibility and degree of influence. The size of variable remuneration is based on the percentage of set goals met by the individual. Variable remuneration shall not exceed 40 percent of fixed salary for the President and 20 percent of fixed salary for other senior executives. In addition, the Board shall have the option of deviating from these terms and make discretionary allotments of variable remuneration when the Board deems such action to be appropriate.

Long-term incentive program
Orexo has adopted a share-based incentive program that is designed to promote the company's long-term interests by motivating and rewarding the company's senior executives. For a description of the company's long-term incentive program, see Note 15 and the company website, www.orexo.com.

Other remuneration and terms of employment
The President and other senior executives are covered by a defined-contribution pension plan. Pension premiums paid by the company amount to 20 percent of the President's monthly salary, while pension premiums for other senior executives amount to an average of 20 percent of fixed annual salary.

The employment agreement with the President may be terminated with a notice period of six months. Employment agreements with other senior executives may be terminated with a period of notice of between three and six months. The President is entitled to severance pay if the company terminates employment, and shall correspond to twelve months' salary (including salary paid during the notice period), which includes the pension, but not the bonus earned on the termination of employment. In addition, an agreement is in place with the CFO stipulating six months' severance pay on termination of employment.

Deviations from guidelines
The Board is entitled to deviate from the above guidelines if the Board determines that there are special reasons in an individual case that warrant such action.

Deviations from the principles and guidelines adopted in 2011
The Board resolved on an extra payment to the Board Chairman of SEK 657,100. The purpose of this payment was to provide compensation for the work of the Chairman in conjunction with the recruitment of a new President, which was of such an extent that it was not considered to be part of regular Board work and the fees paid for such work. Furthermore, certain agreements relating to variable remuneration to senior executives have been concluded stipulating variable remuneration amounting to 25 percent of fixed salary. However, no payment has been made in excess of the 20 percent ceiling adopted by the Annual General Meeting.

The deviations occurred where there was an opportunity to deviate from the principles and guidelines for remuneration to senior executives that were approved by the 2011 Annual General Meeting and such deviations were warranted.

Costs and remuneration to the Board, President and senior executives

SEK thousand	Basic salary/ Board fees	Variable remuneration	Other benefits	Pension costs	Share-based payment	Other remuneration	Total remuneration
Board of Directors							
Håkan Åström, Chairman	306				278	657	1,241
Monica Caneman[1], Board member	31				10		41
Michael Shalmi, Board member	72				10		82
Raymond Hill, Board member	194				178		372
Staffan Lindstrand, Board member	103						103
Bengt Samuelsson, Board member	97				89		186
Kjell Strandberg, Board member	97				89		186
Peter Lindborg[1], Board member	50				18		68
Subtotal	**950**				**672**	**657**	**2,279**
President							
Anders Lundström, President and CEO	3,128	1,020	128	550	2,239		7,065
Other senior executives (5)	8,067	1,526	116	1,723	900		12,332
Total	**12,145**	**2,546**	**244**	**2,273**	**3,811**	**657**	**21,676**

[1] Left the Board in 2011.

For 2011, provisions for variable remuneration to senior executives were made in the amount of SEK 2.5m.

Other benefits refer primarily to a company car and travel between place of residence and workplace.

During 2011, Orexo paid severance pay for the departing President and departing CFO. However, these payments were expensed in 2010.

Other senior executives, as of December 31, refer to the six people presented on page 76.

The composition of the group has changed over the year, with the average number of people being five.

The number of shares and options held by the President and senior executives is shown in the information regarding the Board on page 76 and Management on page 77. Refer to Note 15 for a description of share-based remuneration.

Orexo has not granted loans, guarantees or provided collateral on behalf of the company's Board members, senior executives or auditors. None of the Board members, senior executives or auditors has directly or indirectly through associated companies or their immediate families been involved in business deals with Orexo on non-commercial terms.

Board members and senior executives

	2011 Number on the closing date	2011 of whom men	2010 Number on the closing date	2010 of whom men	2009 Number on the closing date	2009 of whom men
Group (inc. subsidiaries)						
Board members	11	91%	11	91%	11	91%
President and other senior executives	7	71%	6	66%	6	66%
Parent Company						
Board members	6	100%	8	88%	8	88%
President and other senior executives	7	71%	6	66%	6	66%

NOTE 28 INCOME TAX

	Group			Parent Company		
	2011	2010	2009	2011	2010	2009
Current tax for the year	–	–	–1,446	–	–	–1,390
Current tax attributable to previous years	–	–	–	–	–	–
Deferred tax	7,411	13	308	–	–	–
Total	**7,411**	**13**	**–1,138**	**0**	**0**	**–1,390**
Difference between the Group's tax expense and tax expense based on the current tax rate						
Recognized pre-tax loss	–392,009	–89,259	–96,941	–443,769	–118,632	–41,801
Tax under current tax rate	102,943	23,149	25,495	116,711	31,200	10,994
Tax effect of Group contributions	–	–	–	–	–	–
Tax effect of non-deductible costs	–78,200	–3,600	–200	–99,223	–113	–179
Tax effect of changed tax rate	–	–	–14,570	–	–	–7,384
Tax effect of deductible costs not charged to earnings	3,366	–	–	3,366	–	–
Tax effect of non-deductible income	2	150	7	21,041	150	6
Increase in unrecognized deferred tax	–28,111	–19,699	–10,732	–41,895	–31,237	–3,437
Decrease in deferred tax liability due to temporary differences	7,411	13	308	–	–	–
Non-deductible foreign tax	–	–	–1,446	–	–	–1,390
Tax on profit for the year according to the statement of operations	**7,411**	**13**	**–1,138**	**0**	**0**	**–1,390**

Tax rate
The current tax rate is the tax rate for income tax in the Group. The tax rate is 26.3 percent (26.3).

NOTE 29 DEFERRED INCOME TAX

Deferred tax assets and deferred tax liabilities are netted when there is a legal netting right. Deferred tax liabilities pertaining to temporary differences in conjunction with the acquisition of Biolipox (2007) acquired R&D were netted against the tax-loss carry-forwards in Biolipox.

In 2011, some of the acquired R&D was impaired, resulting in a reduction in the netted loss carry-forwards in Biolipox.

	Group			Parent Company		
	2011	2010	2009	2011	2010	2009
Deferred income tax						
Deferred tax assets						
– *related to loss carry-forwards in Biolipox*	27,931	94,752	94,752	–	–	–
– *related to other loss carry-forwards*	280,454	185,552	165,823	198,208	156,313	125,076
Loss carry-forwards not asset recognized	–308,385	–280,274	–260,575	–198,208	–156,313	–125,076
Deferred tax liability						
– *to be paid after more than 12 months*	–1,807	–8,879	–9,717	–	–	–
– *to be paid after more than 12 months*	–	–33	–74	–	–	–
– *to be paid after more than 12 months and related to temporary differences on acquired R&D*	–27,931	–94,752	–94,752	–	–	–
Deferred income tax, net	**1,807**	**8,912**	**9,791**	**0**	**0**	**0**

Recognized deferred tax liabilities amounted to SEK 8,912 at the beginning of the year and SEK 1,807 at year-end. The deferred tax liabilities relate to temporary differences attributable to the acquisition of intangible assets.

Deferred tax assets are recognized for tax-loss carryforwards to the extent that it is probable that they can be applied through future taxable profits. Since it is difficult to determine when loss carry-forwards can be applied, no value has been recognized in the balance sheet for loss carryforwards other than the netting described above. The loss carry-forwards in the Group amounted to SEK 1,175m (1,066.9). There is no time limit restriction on when it can be applied.

Gross changes in respect of deferred tax are as follows:

	2011	2010	2009
Opening balance	8,912	9,791	415
Tax on amortization of intellectual property rights in the Group	–7,105	–879	9,376
Closing balance	1,807	8,912	9,791

NOTE 30 EARNINGS PER SHARE

Earnings per share before dilution are calculated by dividing the earnings attributable to the Parent Company by a weighted average number of common shares outstanding during the period, as shown in the presentation below.

	Group		
	2011	2010	2009
Earnings used for the calculation of loss per share before dilution	–392,009	–89,246	–98,079
Average number of shares before dilution	27,167,225	23,402,502	22,714,784
Loss per share before dilution (SEK per share)	–14.43	–3.81	–4.32
Options outstanding	2,299,538	1,517,941	1,925,523

In calculating the earnings per share after dilution, the weighted average number of common shares outstanding is adjusted for the dilution effects of all potential common shares. The potential common shares in the Parent Company are represented by employee stock options, warrants and convertibles. In terms of convertibles, dilution has been increased by all shares that a convertible issue can produce.

As earnings are negative, the same earnings per share are recognized after dilution as before dilution, as shown in the table above.

NOTE 31 SHARE DIVIDENDS

No dividend was paid in 2011. The Board will propose to the Annual General Meeting on April 11, 2011 that no divided be paid for the 2011 fiscal year.

NOTE 32 UNDERTAKINGS

Undertakings relating to operational leasing in which Group companies are the lessees

The Group leases various types of machinery and other technical plant in accordance with cancelable operational leasing agreements. Information on the leasing expenses recognized in profit or loss during the year is shown in Note 7.

Orexo concluded a new leasing contract, effective January 1, 2007. This contract pertains to the leasing of premises for offices and production facilities.

The nominal value of future leasing fees for lease agreements that cannot be terminated are as follows:

	Group			Parent Company		
	2011	2010	2009	2011	2010	2009
Falls due for payment within one year	15,091	15,091	15,091	15,091	15,091	15,091
Falls due for payment later than one year but within five years	15,091	30,182	15,091	15,091	30,182	15,091
Falls due for payment later than five years	–	–	–	–	–	–
Total	**30,182**	**45,273**	**30,182**	**30,182**	**45,273**	**30,182**

NOTE 33 DISCLOSURES ON THE CASH FLOW STATEMENT

	Group			Parent Company		
	2011	2010	2009	2011	2010	2009
Adjustment for items not included in cash flow comprise the following:						
Depreciation/amortization and impairment	279,072	33,764	10,503	382,061	8,944	7,196
Employee stock options, value of employees' services	3,111	3,309	8,203	3,111	2,978	7,140
Financial expenses, convertible promissory note	–2,882	2,752	–	–2,882	2,752	–
Other	53	–	2,128	–	193	–86
Total	**279,354**	**39,285**	**20,834**	**382,290**	**14,867**	**14,250**

Transactions not settled with cash

The most important transaction not settled with cash is the issue of shares as consideration for the acquisition presented in Note 36.

NOTE 34 RELATED PARTY TRANSACTIONS

Purchases and sales between Group companies

The following transactions took place between companies in the Group:	2011	2010	2009
Forward invoicing of costs, which is recognized as net revenues			
Biolipox AB	50,869	35,581	34,192
Prostrakan AB	1,275	270	–
Kibion AB	2,986	3,622	1,424
Sale of services			
Wagner Analysen Technik GmbH	322		
Orexo UK Ltd	1,172	3,716	2,964
PharmaKodex Ltd	774	85	350
Kibion AB	460	597	359
Total	**57,858**	**43,871**	**39,289**

The Group also receives indirect income via the joint venture as a result of royalties received for products Prostrakan Ltd sells to the joint venture.

The Group has no losses or doubtful credits on receivables from related parties.

Liability to related party

On April 7, 2010, Orexo issued a convertible debenture to Novo A/S, which used the funds to purchase shares on the market and become one of Orexo's major shareholders. When the decision was taken to make the issue, Novo did not have a holding or a seat on the Board of Directors.

The following transactions have taken place between Orexo and Novo A/S in respect of the convertible debenture	2011
At the beginning of the year	117,679
Interest paid during the year	–6,943
Interest expense	8,892
At year-end	119,628

Remuneration and obligations in respect of pensions and similar benefits to Board members and the President.

See Note 27. No other transactions with related parties have taken place.

NOTE 35 HOLDINGS IN JOINT VENTURES

The Group has a 50-percent holding in a joint venture, ProStrakan AB, which markets and sells pharmaceuticals. The following amounts are included in the consolidated balance sheet and statement of operations and represent the Group's holding of 50 percent of the assets and liabilities and sales and earnings in this joint venture.

	2011	2010	2009
Assets			
Fixed assets	7,054	7,074	7,094
Current assets	9,685	7,101	8,142
	16,739	**14,175**	**15,236**
Liabilities			
Long-term liabilities	–	–	–
Current liabilities	3,161	1,904	2,072
	3,161	**1,904**	**2,072**
Net assets	**13,578**	**12,271**	**13,164**
Income	16,946	12,280	10,798
Expenses	–15,637	–13,174	–12,203
Profit/loss for the year	**1,309**	**–894**	**–1,405**

There are no contingent liabilities deriving from the Group's interest in this joint venture. Nor does this joint venture have any contingent liabilities.

NOT 36 BUSINESS COMBINATIONS

Business combinations in 2011

On August 1, Orexo AB obtained a controlling influence and thus control over the acquired German company Wagner Analysen Technik GmbH. The company was acquired by Orexo AB's subsidiary Kibion AB and consolidated in the Orexo Group as of the same date.

The acquisition strengthens Kibion's operation and creates significant opportunities for future growth and thus a stronger independent unit.

The goodwill of SEK 16.0m that arose through the acquisition relates to the synergy effects that are expected to be attained by Kibion AB's and the acquired company Wagner Analysen Technik GmbH's operations.

The acquired company contributed net revenues of SEK 4.6m and a net loss of SEK 0.2m for the period August 1 to December 31, 2011. Had the acquisition taken place on January 1, 2011, the Group's net revenues would have been SEK 2.6m higher and the result for the period SEK 3.5m lower.

The acquisition was financed through a bank loan.

The acquisition also includes additional conditional payments based on sales revenues.

The Group has made a provision corresponding to the expected outcome. However, there is a ceiling regulating the size of the additional purchase price, which has been set at a maximum of EUR 4m.

The cost is SEK 14.3m. Costs related to the acquisition amount to SEK 0.8m and are recognized under administrative expenses.

Acquired net assets and goodwill (MSEK):	
Purchase consideration	10.0
Additional purchase price	4.3
Total purchase consideration	**14.3**
Fair value of acquired net assets	–1.7
Goodwill	**16.0**

The assets and liabilities included are as follows (MSEK):	**Fair value**	**Acquired carrying amount**
Tangible fixed assets	0.1	0.1
Inventories	0.6	0.6
Current receivables	7.2	7.2
Cash and cash equivalents	0.2	0.2
Current liabilities	–9.8	–9.8
Acquired net assets	**–1.7**	**–1.7**

Business combinations in 2009

On February 24, Orexo AB obtained a controlling influence and thus control of the acquired UK company PharmaKodex. The company was consolidated in the Orexo Group as of the same date.

Orexo acquired PharmaKodex in return for payment in two tranches. The first tranche was paid in newly issued shares in Orexo on February 23, 2009 and Orexo made a decision about the payment date for the second tranche on August 21, 2009. As payment for the first tranche, 843,992 new shares in Orexo were issued to the previous shareholders in PharmaKodex. A further 933,781 shares were issued as supplementary purchase consideration in accordance with the Board's decision dated August 21, 2009. With the two tranches and taking into account the share price on each issue date, PharmaKodex is valued at a total of approximately GBP 6.5m. The acquisition also includes further conditional payments that are based on revenues from licenses for PharmaKodex's current programs and technologies, and on certain intermediate milestone payments that are not deemed to be probable and are recognized as contingent liabilities.

Acquired net assets and goodwill (MSEK):	
Newly issued shares	80.7
Interest expense, tranche 2	–2.3
Direct costs in conjunction with acquisition	3.8
Total purchase consideration	**82.2**
Fair value of acquired net assets	–82.2
Goodwill	**0.0**

The assets and liabilities included are as follows (MSEK):	**Fair value**	**Acquired carrying amount**
Intangible assets		
– Acquired research and development	60.0	–
Tangible fixed assets	0.4	0.4
Intangible fixed assets	1.5	1.5
Current receivables	6.3	6.3
Cash and cash equivalents	28.5	28.5
Current liabilities	–4.0	–4.0
Deferred tax liability	–10.4	
Acquired net assets	**82.3**	**32.7**

Expenditure in conjunction with the acquisition (MSEK):	
Expenses associated with the acquisition	–3.8
Cash and cash equivalents in the acquired company	28.4
Change in Group's cash and cash equivalents	**24.6**

NOTE 37 EVENTS AFTER THE CLOSING DATE

Negotiations relating to the collaboration with Janssen Pharmaceuticals, Inc concerning OX-CLI and OX-ESI were concluded, resulting in Orexo's termination of the project operations and the impairment of acquired R&D in the amount of SEK 232.5m.

NOTE 38 INFORMATION ABOUT OREXO AB (PUBL)

Orexo AB (publ) has its registered office in Uppsala, Sweden, and the address of the company's head office is Virdings allé 32 A, SE-751 05 Uppsala, Sweden, telephone +46 (0)18 780 88 00.

Income statements and balance sheets will be subject to adoption at the Annual General Meeting to be held on April 11, 2012.

Assurance of the Board of Directors and President

The Board of Directors and President hereby give their assurance that the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and present a true and fair view of the Group's financial position and earnings. The Annual Report has been prepared in accordance with generally accepted accounting principles and presents a true and fair view of Parent Company's financial position and earnings.

The Board of Directors' Report for the Group and the Parent Company presents a true and fair review of the Group's and the Parent Company's operations, financial positions and earnings and describes the significant risks and uncertainties facing the Parent Company and the companies included in the Group.

Uppsala, March 19, 2012

Orexo AB (publ)

Håkan Åström
Chairman of the Board

Michael Shalmi
Board Member

Bengt Samuelsson
Board Member

Raymond Hill
Board Member

Staffan Lindstrand
Board Member

Kjell Strandberg
Board Member

Anders Lundström
President

Our audit report was submitted on March 19, 2012

PricewaterhouseCoopers AB

Leonard Daun
Authorized Public Accountant

Audit Report

To the Annual General Meeting of
Orexo AB (publ)
Corp. Reg. No. 556500-0600

Report on the annual accounts and consolidated financial statements
We have audited the annual accounts and consolidated financial statements of Orexo AB (publ) for the year 2011. The annual accounts and consoli-dated accounts of the company are included in the printed version of this document on pages 6-66.

Responsibilities of the Board of Directors and the President for the annual accounts and consolidated financial statements
The Board of Directors and the President are responsible for the preparation and fair presentation of these annual accounts and consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the President determine is necessary to enable the preparation of annual accounts and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these annual accounts and consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President, as well as evaluating the overall presentation of the annual accounts and consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions
In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Parent Company as of December 31, 2011 and of its financial performance and cash flows for the year then ended in accordance with the Annual Accounts Act, and the consolidated financial statements have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as of December 31, 2011 and of its financial performance and cash flows in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory Board of Directors' Report is consistent with the other parts of the annual accounts and consolidated financial statements.

We therefore recommend that the Annual General Meeting of Shareholders adopt the income statement and balance sheet for the Parent Company and the Group.

Report on other legal and regulatory requirements
In addition to our audit of the annual accounts and consolidated financial statements, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the President of Orexo AB (publ) for the year 2011.

Responsibilities of the Board of Directors and the President
The Board of Directors is responsible for the proposal concerning the appropriation of the company's profit or loss and the Board of Directors and the President are responsible for administration under the Companies Act.

Auditor's responsibility
Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined whether the Board of Directors' proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated financial statements, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the President is liable to the company. We also examined whether any member of the Board of Directors or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinions
We recommend to the Annual General Meeting of Shareholders that the profit be appropriated in accordance with the proposal in the statutory Board of Directors' Report and that the members of the Board of Directors and the President be discharged from liability for the fiscal year.

Uppsala, March 19, 2012

PricewaterhouseCoopers AB

Leonard Daun
Authorized Public Accountant

Definitions of key figures

Key figures and certain other operational information and information per share have been defined as follows:

Number of shares after dilution	– Calculation of dilution from options issued by the company until 2005 has been made in accordance with IAS 33.
Return on total capital	– Operating profit/loss plus financial income as a percentage of average total assets.
Return on shareholders' equity	– Profit/loss for the period as a percentage of average shareholders' equity.
Return on employed capital	– Operating profit/loss plus financial income as a percentage of average capital employed.
Current ratio	– Current assets as a percentage of current liabilities.
Gross margin	– Gross profit divided by net revenues.
EBITDA	– Earnings before interest, taxes, depreciation, and amortization.
Shareholders' equity per share, before dilution	– Shareholders' equity divided by total number of shares before dilution at the end of the period.
Shareholders' equity per share, after dilution	– Shareholders' equity divided by total number of shares after dilution at the end of the period.
Average number of employees	– Average number of full-year employees for the period.
Cash flow from operating activities per share, before dilution	– Cash flow from operating activities divided by the average number of outstanding shares before dilution.
Cash flow from operating activities per share, after dilution	– Cash flow from operating activities divided by the average number of outstanding shares after dilution..
Acid-test ratio	– Current assets, excluding inventories, as a percentage of current liabilities.
Capital turnover rate	– Net revenues divided by average operating capital.
Net debt	– Current and long-term interest-bearing liabilities, including pension liabilities, less cash and cash equivalents.
Operating capital	– Total assets, less non-interest-bearing liabilities and provisions less cash and cash equivalents.
Earnings per share, before dilution	– Profit/loss for the period divided by the average number of outstanding shares before dilution.
Earnings per share, after dilution	– Profit/loss for the period divided by the average number of outstanding shares after dilution.
Return on equity	– Profit/loss for the year divided by average shareholders' equity.
Interest-coverage ratio	– Profit/loss after financial items plus interest expenses and similar items, divided by interest expenses and similar items.
Working capital, net	– Non-interest-bearing current assets less non- interest-bearing current liabilities.
Working capital, net/net revenues	– Average working capital, net, divided by net revenues.
Operating margin	– Operating profit/loss as a percentage of net revenues.
Debt/equity ratio	– Interest-bearing liabilities divided by shareholders' equity.
Equity/assets ratio	– Shareholders' equity as a percentage of total assets.
Capital employed	– Interest-bearing liabilities and shareholders' equity.
Profit margin	– Profit/loss after financial items expressed as a percentage of net revenues.

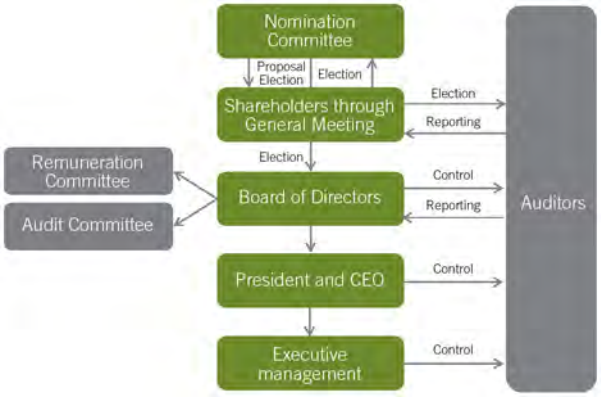
Corporate Governance Report for Orexo AB (publ)

Orexo is a Swedish public limited liability company with registered offices in Uppsala, Sweden and its share listed on the NASDAQ OMX (Small cap) Stockholm. Corporate Governance in Orexo is based on applicable legislation, the Swedish Code of Corporate Governance ("the Code") and internal regulations and guidelines. The Code is available at www.corporategovernanceboard.se. Orexo applies the Code without deviations.

The aim of corporate governance at Orexo is to create a clear division of roles and responsibilities between shareholders, the Board of Directors and Executive Management.

The company's auditors reviewed this report.

Corporate Governance at Orexo



The governance, management and control of Orexo are divided between the General Meeting of Shareholders, the Board of Directors and the President.

External regulations influencing corporate governance

- Swedish Companies Act
- Regulations governing external reporting
- NASDAQ OMX Stockholm rules for issuers
- Swedish Code of Corporate Governance

Internal rules of significance for corporate governance

- Articles of Association
- Formal work plan for the Board of Directors (including terms of reference for Board Committees)
- Terms of reference for the President
- Guidelines for remuneration of senior executives
- Finance policy
- IT policy
- Financial guidelines
- HR guidelines

Shareholders

Orexo's share has been listed on the NASDAQ OMX Stockholm (Small cap) since 2005. At year-end, the total number of shares amounted to 29,865,495 (23,403,752), distributed among 3,605 (3,656) shareholders. The ten largest shareholders held 62 (58) percent of the outstanding shares, corporate management 2 (3) percent and other shareholders 36 (39) percent. At December 31, 2011, two shareholders held shares representing 10 percent or more of the company – Novo A/S, 24.1 percent and HealthCap, 18.5 percent. Non-Swedish shareholders accounted for approximately 45 (31) percent of the total number of shares. Institutions and industrial owners hold the majority of shares. At year-end, 81 (78) percent of shares were held by legal entities, and 19 (22) percent by private individuals.

Articles of Association

The Articles of Association are adopted by the General Meeting of Shareholders and outline a number of mandatory tasks of a fundamental nature to the company. Notification of the convening of the General Meetings is issued through an advertisement being placed on Orexo's website and in Post- och Inrikes Tidningar (Official Swedish Gazette). Confirmation that a General Meeting has been convened shall be announced in the Svenska Dagbladet newspaper. The Articles of Association state that Orexo shall conduct research and development, and manufacture, market and sell pharmaceuticals and diagnostic preparations. Orexo's Articles of Association also state that the Board of Directors shall have its registered office in Uppsala, Sweden, and shall consist of a minimum of three and a maximum of nine members, with a maximum of three deputies. The Articles of Association contain no special provisions on the appointment or dismissal of Board members. Amendments to the Articles of Association are made in accordance with the provisions of the Swedish Companies Act following a resolution of the General Meeting. The complete Articles of Association are available at www.orexo.com.

General Meeting of Shareholders

Orexo's highest decision-making body is the General Meeting, at which every shareholder who is entered in the share register and who has provided notification of their attendance within the stipulated time is entitled to participate and vote for the amount of shares held. Shareholders can also be represented by proxy at General Meetings. One share entitles the holder to one vote at General Meetings, and there are no limits as to how many votes each shareholder can cast at a General Meeting. Resolutions at General Meetings are passed with a simple majority, unless the Companies Act stipulates a higher percentage of the shares and votes represented at the Meeting.

The Annual General Meeting elects members to the Board of Directors and sets Board fees. The other mandatory tasks of the Annual General Meeting include adopting the company's balance sheet and income statement, passing resolutions on the appropriation of earnings from operations, remuneration guidelines for senior executives and decisions concerning discharge from liability for Board members and the President. The Annual General Meeting also chooses the company's auditor and sets the auditors' fees. In accordance with the Articles of Association, the Annual General Meeting shall be held in either Uppsala or Stockholm.

Annual General Meeting 2011

The 2011 Annual General Meeting was held on Thursday, April 7, 2011 in Stockholm. At the Meeting:

- The balance sheet and income statement for the Parent Company and the Group for the 2010 fiscal year were adopted.
- Raymond G. Hill, Staffan Lindstrand, Bengt Samuelsson, Michael Shalmi, Kjell Strandberg and Håkan Åström were re-elected as ordinary Board members. Håkan Åström was re-elected as Chairman of the Board. Monica Caneman and Peter Lindborg had declined re-election.
- The Annual General Meeting granted Board members and the President discharge from liability for the 2010 fiscal year.
- It was decided that fees for Board members should amount to SEK 1,700,000, with SEK 500,000 paid to the Chairman of the Board, SEK 300,000 to Raymond G. Hill and SEK 150,000 to each of the other Board members, and a total of SEK 300,000 distributed equally between the members of the Remuneration and Audit Committees for their work in these bodies.
- It was decided to adopt a Board shareholder program, including the issuance of warrants and approval of the disposition of warrants within the framework of this program. Board shares (options to acquire shares in Orexo) ("Board Shares") shall be issued at no charge, with each Board Share eligible to be utilized for the acquisition of one share in Orexo against the payment of a redemption amount set at the quotient value of the Orexo share (SEK 0.4). Board members participating in the Orexo Board shareholder program receive Board Shares in the amount equivalent to 50 percent of the Board fee at the time of allocation, and the remaining 50 percent of the Board fee in cash. Board members' entitlement to request redemption comes into force from two years after the Annual General Meeting onwards. The Board Share term runs from the date of allocation up to and including December 31, 2018. To ensure that the company can satisfy its undertaking to Board shareholders on the exercise of Board Shares, the General Meeting has resolved to issue no more than 24,000 warrants to the wholly owned subsidiary Pharmacall AB for any new share issue, equivalent to a maximum of approximately 0.10 percent of shares in Orexo at full dilution. The reasons for introducing the Orexo Board shareholder program is to attract, motivate and retain Board members, to increase Board members' interest in Orexo and its financial development and to give Board members the opportunity to have a financial stake in Orexo that is comparable with those of other shareholders. Based on an evaluation carried out by the company, the total value of the Board Shares is estimated to be SEK 1.1m at the date of allocation.
- The Board's motion concerning principles and guidelines for remuneration and other terms of employment for senior executives was approved.
- The motion concerning terms of reference for the Nomination Committee was approved.

Complete information about the 2011 Annual General Meeting can be found at www.orexo.com.

Extraordinary General Meeting on February 16, 2011

An Extraordinary General Meeting of Orexo was held on Wednesday, February 16, 2011 in Stockholm. The Meeting resolved to adopt the 2011/2021 performance-based, long-term incentive program for Orexo's senior executives. For more information about the incentive program, see the complete proposal at www.orexo.com.

Extraordinary General Meeting on May 27, 2011

An Extraordinary General Meeting of Orexo was held on Friday, May 27, 2011 in Stockholm. The meeting resolved to approve the Board's decision to issue new shares with pre-emptive rights for shareholders and the holders of the company's convertible bonds 2010/2015. The terms for the rights issue entail that four existing shares in Orexo provide entitlement to subscription for one new share at a subscription price of SEK 38 per share. The rights issue generated proceeds of approximately SEK 245m for Orexo before transaction costs. The rights issue was fully covered by subscription undertakings and commitments to underwrite without compensation and through a guarantee from an external party. For further details and information on the background are reasons for the rights issue, refer to Orexo's press release dated May 4, 2011, at www.orexo.com.

Annual General Meeting 2012

The Annual General Meeting of Orexo will be held on Wednesday, April 11, 2012, at 4:00 p.m. at the company's premises at Virdings allé 32 A, Uppsala, Sweden.

Nomination Committee

The 2011 Annual General Meeting decided that Company should have a Nomination Committee. The Nomination Committee represents the company's shareholders. It is tasked with creating the best possible basis for the General Meeting's resolutions regarding the election of Board members and Board fees and to submit proposals concerning, for example, the appointment of auditors and auditors' fees. The Nomination Committee comprises representatives of the four largest shareholders in terms of voting rights on the final banking day in August 2011, in addition to the Chairman of the Board. The composition of the Nomination Committee was announced on Orexo's website and in a press release on October 11, 2011. The Committee held one (two) meetings during the year.

Through the Chairman of the Board, the Nomination Committee reviewed the evaluation of the Board's work and received information regarding developments in the company. The principal requirements to be imposed on the Board of Orexo and the importance of independent Board members were discussed.

No special remuneration was paid for participation in the Nomination Committee.

Nomination Committee for the 2012 Annual General Meeting

Name	Represents Represents
Ulrik Spork	Novo A/S, and Chairman of the Nomination Committee
Björn Odlander	HealthCap
Claus Berner Møller	Arbejdsmarkedets Tillaegspension (ATP)
Ulrika Slåne	The Third Swedish National Pension Fund
Håkan Åström	Chairman of the Board of Directors, Orexo

Combined, the Nomination Committee represents about 40 percent of the number of shares and votes in the company, based on shareholder data at the time of appointment.

Board of Directors

The Board's responsibility is regulated in the Companies Act and the formal work plan that is established annually. The formal work plan establishes the division of the Board's work between the Board in its entirety and the Board's various committees and between the Board and the President. It also sets out the items to be addressed at Board meetings and the manner in which the President provides the Board with information and reports. The Board has appointed Audit and Remuneration Committees from within its ranks.

At year-end, Orexo's Board of Directors consisted of Chairman Håkan Åström and Board members Raymond G. Hill, Staffan Lindstrand, Michael Shalmi, Kjell Strandberg and Bengt Samuelsson. For a more detailed description of Board members, refer to page 76.

Board activities

The Board's formal work plan establishes the items to be addressed at the scheduled Board meetings. Following presentations by the Audit Committee and President, the Board reviews all interim reports prior to publishing. The company's long-term targets and strategy and its budget are evaluated and approved by the Board. At each Board meeting, the President or another senior executive reports on the business situation and the status of development projects.

In addition to the statutory Board meeting, at least six scheduled Board meetings must be held. At the Board meeting during which the annual audit is to be considered, the Board meets with the auditors without the presence of any employees of the company.

It is incumbent upon the Board to ensure that the guidelines for remuneration to senior executives approved by the Annual General Meeting are followed and that the Annual General Meeting proposes guidelines for remuneration to senior executives.

Each year, the Board's work is evaluated by way of discussions and through external assessment. The results of the evaluation are presented to the Board and Orexo's Nomination Committee and forms the basis for proposals for Board members.

In matters concerning ownership, Orexo is represented by the Chairman of the Board.

Remuneration to the Board

The Annual General Meeting resolved that Board fees would amount to SEK 1,700,000, of which SEK 500,000 to be paid to the Chairman of the Board, SEK 300,000 to Raymond G. Hill and SEK 150,000 to each of the other Board members, and a total of SEK 300,000 to be divided equally among the members of the Remuneration and Audit Committees.

In addition to the remuneration approved by the Annual General Meeting, on the initiative of Michael Shalmi and Staffan Lindstrand, the Board resolved on an extra payment to the Board Chairman Håkan Åström of SEK 657,100. The payment compensates Håkan Åström for the extra work carried out in conjunction with the recruitment of a new President, which was of such an extent that it was not considered to be part of regular Board work and the fees paid for such work.

During the year, the Board held 16 (12) meetings, of which seven (four) were telephone conferences or meetings by circulation. The Board mainly addressed and resolved on issues concerning the company's strategic direction, the status of projects, research collaborations, licensing of projects, the follow-up of financial performance, investment matters, external reporting, budget planning and follow-up, and the rights issue implemented in the second quarter. During the year, the Product Development Committee was discontinued. These issues are now addressed by the Board in its entirety, or in certain instances, by Executive Management. Orexo's auditor participated at the Board meeting that approved the financial statements and presented the audit at this meeting.

Composition of the Board

Name	Function	Independent	Elected	Board Meeting Attendance	Remuneration Committee Attendance	Audit Committee Attendance
Håkan Åström	Board Chairman		2003	15/16	2/2	5/5
Monica Caneman*	Board member		2004	5/6	–	0/1
Michael Shalmi**	Board member		2010	15/16	2/2	4/4
Raymond G. Hill	Board member		2008	13/16	2/2	–
Peter Lindborg*	Board member		2009	5/6	–	–
Staffan Lindstrand	Board member		2002	14/16	2/2	4/5
Bengt Samuelsson	Board member		2008	15/16	–	–
Kjell Strandberg	Board member		2003	14/16	–	–

* Board member up to and including 2011 Annual General Meeting
** Member of the Audit Committee as of the 2011 Annual General Meeting

Independent in relation to Orexo and its management
Independent in relation to Orexo, its management and the company's largest shareholders

Composition of the Board

Board members, their positions and whether or not they are considered to be independent in relation to Orexo, its management and the company's largest shareholders are stated in the table above. Orexo's Board of Directors is deemed to have satisfied the requirements of the Code in respect of independence, as all members elected by the Meeting have been deemed to be independent in relation to Orexo and its management and all of these members, with the exception of two, have also been deemed to be independent in relation to the company's largest shareholders.

Audit Committee

Orexo's Audit Committee is primarily concerned with ensuring compliance with established principles for financial reporting and internal controls. The Audit Committee must also remain informed about the audit of the Annual Report and consolidated accounts, inspect and monitor the impartiality and independence of the auditor, paying particularly close attention to instances where the auditor provides the company with services outside the scope of the audit, and assist in the preparation of proposals to the General Meeting in respect of auditor selection. The Audit Committee presents the final version of Orexo's interim reports to the Board for approval and publication. The Audit Committee meets prior to the publication of each interim report, in connection with budget reviews and when otherwise necessary. The aforementioned issues are addressed by the Committee and the Board makes resolutions on the basis of the proposals produced. Orexo's auditor attends the meetings of the Audit Committee once or twice a year. During the year, the Audit Committee was convened on five (five) occasions. At least one of the members of the Committee must be independent in relation to the company and Executive Management, and also be independent in relation to the company's largest shareholder and have accounting or auditing expertise. The Committee is currently made up of Håkan Åström, Michael Shalmi and Staffan Lindstrand.

Remuneration Committee

The Remuneration Committee is tasked with addressing matters concerning salaries and other terms of employment, pension benefits and bonus systems, including any allocation of warrants under the terms of approved incentive programs for the President and the managers who report directly to him, as well as remuneration issues based on principle. The Committee shall meet as often as required. The above issues are addressed by the Committee and the Board makes resolutions on the basis of the proposals from the Committee. The Committee should comprise the requisite knowledge and expertise to deal with issues related to the remuneration of senior executives. The Remuneration Committee comprises Håkan Åström, Michael Shalmi and Raymond G. Hill. During the year, the Remuneration Committee was convened on two (two) occasions.

Evaluation of the Board's work

The work of the Board, similar to that of the President, is evaluated annually in a systematic and structured process. The Nomination Committee is informed of the results of the evaluation.

President and Executive Management

The President leads the work of the Executive Management team and makes decisions in consultation with the rest of the management. At the end of 2011, Executive Management consisted of six people. The Executive Management team holds regular meetings under the supervision of the President.

Board of Directors' report on internal control and risk management regarding financial reporting

Internal governance, control and risk management concerning financial reporting are fundamental factors that ensure that Orexo achieves its goals.

The aim of Orexo's risk management systems and processes is to ensure that the shareholders can have the utmost confidence in the financial operation and presented reports, including the information given in this Annual Report and all interim reports. Orexo has established a methodology for developing, implementing, driving and evaluating internal controls and risk management in respect of all parts of the company, including financial reporting.

This methodology conforms to internationally established standards in the industry and comprises a framework with five principal components: control environment, risk assessment, control activities, information and communication, and follow-up and evaluation.

Control environment

Pursuant to the Swedish Companies Act, the Board of Directors is responsible for the internal control and governance of the company. To maintain and develop a functional control environment, the Board has implemented a process of risk mapping and established a number of basic control documents and procedures that are of importance to financial reporting. These include the ***Rules of Procedure for the Board of Directors*** and ***Instructions for the Managing Director***, and accounting and reporting instructions, which are reviewed and approved annually by the Board.

In addition, the control environment is continuously updated and secured by means of continuous monitoring and regular evaluations of risk profiles within various functions.

Responsibility for the daily work of maintaining the control environment is primarily incumbent on the President. He reports regularly to the Board of Directors and the Audit Committee pursuant to established procedures. In addition, the Board also receives regular reports directly from the company's auditor. Company managers have defined authorities, control functions and responsibilities within their respective areas for financial and internal controls.

Risk assessment

Orexo regularly conducts extensive evaluations of financial risks and other risks that may impact financial reporting. These reviews extend to all parts of the company and are carried out to ensure that there is no significant risk of errors occurring in financial reporting. There are several areas where the control of financial information is particularly important, and Orexo has established a comprehensive risk layout that highlights a number of key potential risks in the financial reporting system.

The company continuously monitors and evaluates these areas and regularly examines other areas in order to create a comprehensive set of control procedures that will minimize the risks in these areas. In addition, new and existing risks are identified, addressed and regulated through a process of discussion in forums such as the Executive Management team, Board and Audit Committee. A structured evaluation of risks and the efficiency of processes deemed to represent the greatest risks is planned for 2012.

Control activities

In light of the risks identified in the risk layout, and the continuous monitoring of the methods used to manage financial information, Orexo has developed control activities that ensure good internal control of all aspects of financial reporting. A number of policy documents and procedures have been applied throughout the year to manage reporting and accounting. Standard procedures, attestation systems, financial guidelines and risk layouts are examples of such policy documents.

An additional level of control in the financial system has been achieved by separating the company's financial and controller functions. These units are responsible for ensuring that financial reporting is correct, complete and timely. Orexo strives to continually improve its internal control systems and has, on occasion, engaged external specialists when validating these controls.

Information and communication

Orexo is a listed company in one of the most regulated markets in the world – healthcare. In addition to the highly exacting requirements that NASDAQ OMX Stockholm and the supervisory authorities impose on the scope and accuracy of information, Orexo also employs internal information and communication control functions designed to ensure that correct financial and other corporate information is communicated to employees and other stakeholders.

The Board receives monthly reports concerning financial performance, the status of Orexo's development projects and other relevant information.

The corporate intranet provides detailed information about applicable procedures in all parts of the company and describes the control functions and how they are implemented.

The security of all information that may affect the market value of the company and mechanisms to ensure that such information is communicated in a correct and timely fashion are the cornerstones of the company's undertaking as a listed company. These two factors, and the procedures for managing them, ensure that

financial reports are received by all players in the financial market at the same time, and that they provide an accurate presentation of the company's financial position and performance.

Follow-up

Orexo's management conducts a monthly performance follow-up, with an analysis of deviations from the budget and the preceding period. Orexo's controller function also conducts monthly controls, evaluations and follow-ups of financial reporting. Because much of the company's product development is carried out in project form, these are followed up on a continuous basis from a financial perspective. The Board of Directors and the Audit Committee review the Annual Report and interim reports prior to publication. The Audit Committee discusses special accounting policies, risks and other issues associated with the reports. The company's external auditor also participates in these discussions.

Orexo has no separate auditing function (internal audit). The Board annually evaluates the need for such a function and, considering the size and structure of the company where essentially the company's entire operations are conducted from its head office in Uppsala, Sweden, has found no basis for establishing such a separate auditing function. The Board of Director's follow-up of the internal control over financial reporting is mainly carried out through the Audit Committee. All of the company's interim reports are reviewed by the auditors.

Further information about Orexo's corporate governance

The following information is available on www.orexo.se (in Swedish) and www.orexo.com (in English):

Articles of Association

- Information about the Swedish Corporate Governance Code
- Information from General Meetings of previous years
- Information from the Nomination Committee
- Information about remuneration principles for senior
- executives
- Corporate governance reports from 2008 onwards
- Information for the 2011 Annual General Meeting
- (convening notice, Nomination Committee proposals, presentation of the work of the Nomination Committee, etc.)

Auditor's statement concerning the Corporate Governance Report

To the Annual General Meeting of Orexo AB, Corporate Registration Number 556500-0600

It is the Board of Directors who is responsible for the Corporate Governance Report for 2011 on pages 69-72 and for ensuring that it has been prepared in accordance with the Annual Accounts Act.

We have read the Corporate Governance Report and based on this reading and our knowledge of the company and the Group are of the opinion that we have a sufficient basis for our statement. This means that our statutory review of the Corporate Governance Report has a different approach and is of a significantly lesser scope than an audit according to the International Standards on Auditing and accepted auditing standards in Sweden.

In our opinion, a Corporate Governance Report has been prepared and its statutory content is consistent with the Annual Report and the consolidated accounts.

Uppsala, March 19, 2012
PricewaterhouseCoopers AB

Leonard Daun
Authorized Public Accountant

Board of Directors

1. Håkan Åström (born 1947)
Chairman of the Board

Board member since 2003

M.Sc. Bus. Adm., Honorary Doctorate in Medicine at the Sahlgrenska Academy in Gothenburg. Chairman of the Boards of Affibody Holding AB, Pled Pharma AB and Tubulus AB. Board member of Ferrosan Medical Devices AS, Med Core AB and Rehnman & Partners Asset Management AB.

Håkan Åström has served as President of a number of companies, including Travenol AB (Baxter Inc.), Astra Pharmaceuticals Ltd, Pharmacia AB and Kabi Pharmacia AB. Most recently, he was Senior Vice President of Pharmacia Corporation, in charge of the Group's strategy and communication. He was formerly Chairman of the Board of Swedish Orphan Biovitrum AB 2004–2010 and Board member of Karolinska Institute 2004–2010.

Shares and options: 58,842 shares and stock options providing entitlement to 26,992 shares.

2. Raymond G. Hill (born 1945)

Board member since 2008

B. Pharm., Ph.D., D.Sc (Hon) F. Med. Sci. Visiting Professor at Bristol, Surrey, Imperial and Stathclyde Universities.

President Emeritus, British Pharmacological Society; Member of Council and Trustee, Academy of Medical Sciences. Non-Executive Director of Addex, Covagen and Karolinska Development. He has worked in the pharmaceuticals industry for 25 years, mostly in basic drug discovery research, initially for Parke Davis, followed by Smith Kline & French and then Merck. Executive Director of Pharmacology at the Neuroscience Research Centre 1990-2002, followed by a position as Executive Director, Licensing and External Research, Europe for Merck.

Shares and options: stock options providing entitlement to 15,688 shares.

3. Staffan Lindstrand (born 1962)

Board member since 2002

M.Sc. in Engineering.

Partner of HealthCap and Board member of HealthCap AB, Aerocrine AB, PulmonX Inc. and Technolas Perfect Vision GmbH. Staffan Lindstrand has worked at HealthCap since 1997, joining the company after ten years in investment banking.

Shares and options: 963 shares held indirectly.

4. Bengt Samuelsson (born 1934)

Board member since 2008

M.D., Ph.D. Professor at Karolinska Institute. Received the Nobel Prize in Medicine in 1982 for his research on arachidonic acid.

Board member of Cardoz AB, LTB4 Sweden and Nicox SA.

Shares and options: 2,492 shares held indirectly and stock options providing entitlement to 67,543 shares.

5. Michael Shalmi (born 1965)

Board member since 2010

M.D., MBA.

Senior Partner in Novo Growth Equity within Novo A/S.

Before joining Novo A/S, he spent 15 years in various international senior positions in Novo Nordisk.

Shares and options: stock options providing entitlement to 2,397 shares.

6. Kjell Strandberg (born 1938)

Board member since 2003

M.D., PhD.

Professor of Pharamacotherapeutics and Chairman of the Board and President of Kjell Strandberg Consulting AB, member of the Royal Swedish Academy of Engineering Sciences. Chairman of the NDA Regulatory Science Advisory Board and member of the Board of the Foundation for Pharmaceutical Medicine. Dr. Strandberg was previously Director General of the Swedish Medical Products Agency.

Shares and options: 2,550 shares and stock options providing entitlement to 15,923 shares.

Management

1. Thomas Lundqvist (born 1951)

Executive Vice President and Head of Pharmaceutical Research & Development
M.Sc. Pharm.
Founder.
Board member 1995–2003 and President 1997–2002 and for five months in 2003–2004.
Formerly the President of NeoPharma Production AB and ten years' experience of working at the Swedish Medical Products Agency.
Shares and options: 495,250 shares and employee stock options providing entitlement to 185,000 shares.

2. Åsa Holmgren (born 1965)

Head of Regulatory Affairs
M.Sc. Pharm.
Employed since 2008.
Extensive experience of several major pharmaceutical companies, including AstraZeneca, and mainly international, strategic assignments within Regulatory Affairs.
Shares and options: Employee stock options providing entitlement to 42,500 shares.

3. Anders Lundström (born 1962)

President and Chief Executive Officer
M.Sc. Pharm.
Employed since February 2011.
Extensive international experience of the pharmaceuticals industry in R&D, sales and marketing gained from his time at Biogen Idec, AstraZeneca, Janssen-Cilag and Bristol-Myers Squibb, among others.
Shares and options: Employee stock options providing entitlement to 500,000 shares.

4. Nikolaj Sørensen (born 1972)

Chief Commercial Officer
M.Sc. Business and Economics.
Employed since 2011.
International commercial experience of the pharmaceuticals industry from Pfizer and Boston Consulting Group (BCG), among others. Board member of the Swedish Pharmaceutical Industry Association (LIF).
Shares and options: 11,970 shares and employee stock options providing entitlement to 110,000 shares.

5. Marie Zachrisson (born 1963)

Director of Human Resources
B.Sc. Human Resources.
Employed since 2011.
Extensive HR experience from Ericsson AB, OMX and Inera AB, among others.
Shares and options: Employee stock options providing entitlement to 20,000 shares.

6. Peter Edman (born 1954)

Chief Scientific Officer
Ph.D. and Associate Professor in Biochemistry
Employed since 2012.
Extensive experience from senior positions within pharmaceutical research and development at Sobi (Swedish Orphan Biovitrum), Biovitrum, AstraZeneca, Astra and Pharmacia, and Director at the Swedish Medical Product Agency. Professor in Pharmaceutical Formulation and, for several years, Adjunct Professor in Drug Delivery.
Shares and options: Employee stock options providing entitlement to 125,000 shares.

7. Carl-Johan Blomberg (born 1952)

SVP & Chief Financial Officer
B.Sc. Finance.
Employed since 2011.
Extensive experience of accounting and finance from Micronic Mydata, Alfa-Laval, Procordia and Pharmacia & Upjohn, among others. Board Member of Pfizer Pension Trust Sweden, Swedish Space Corporation and Alfa-Laval Pension Trust.
Shares and options: Employee stock options providing entitlement to 100,000 shares.

Financial information in brief

The tables below present financial information for the Orexo Group for the fiscal years 2007–2011.

Income statement information	2011	2010	2009	2008	2007
Net revenues	199.6	210.5	236.1	233.3	76.8
Cost of goods sold	–29.0	–26.3	–23.6	–17.4	–14.4
Gross profit	**170.6**	**184.2**	**212.5**	**215.9**	**62.4**
Selling costs	–50.1	–35.2	–39.3	–38.8	–11.7
Administrative expenses	–49.6	–46.8	–46.3	–55.3	–74.2
Research and development costs	–194.4	–161.1	–222.2	–238.1	–156.0
Other operating income and expenses	–268.0	-22.8	–3.8	3.8	–1.1
Operating loss	–391.5	–81.8	–99.1	–112.5	–180.6
Net financial items	–7.9	–7.5	2.1	9.0	7.7
Loss after financial items	**–399.4**	**–89.3**	**–96.9**	**–103.5**	**–172.8**
Income tax	7.4	–	–1.1	0.4	0.2
Net loss for the year	**–392.0**	**–89.3**	**–98.1**	**–103.1**	**–172.6**

Balance sheet information	2011	2010	2009	2008	2007
Intangible fixed assets	150.9	407.4	447.0	392.0	393.4
Tangible fixed assets	39.2	41.7	45.8	50.3	57.8
Inventories	26.7	8.0	8.4	14.0	13.3
Accounts receivable	56.9	99.2	31.8	28.8	9.6
Other current assets	25.5	20.6	28.9	28.7	36.2
Cash and bank balances	246.9	135.8	87.4	188.2	291.6
Total assets	**546.1**	**712.7**	**649.3**	**702.0**	**801.9**
Shareholders' equity	311.1	468.2	548.6	569.8	671.3
Interest-bearing liabilities	120.9	103.9	16.0	–	–
Noninterest-bearing liabilities and provisions	114.1	140.6	84.7	132.2	130.6
Total shareholders' equity and liabilities	**546.1**	**712.7**	**649.3**	**702.0**	**801.9**

Cash flow information					
Cash flow from operating activities before changes in working capital	–117.2	–49.4	–79.3	–91.2	–165.4
Cash flow from changes in working capital	–	6.4	–54.6	–10.3	12.6
Cash flow from operating activities	–117.2	–43.0	–133.9	–101.5	–152.8
Investments in tangible assets	–4.7	–3.4	–3.2	–1.6	–49.3
Change in short-term investments	–	–	–	–	56.1
Investments in subsidiaries	–10.3	–	24.7	–0.3	158.2
Cash flow after investing activities	–132.3	–46.4	–112.4	–103.4	12.2
Liquidity from the issue of convertible promissory notes	–	111.2	–	–	–
Amortization of loans	–	–16.0	–	–	–
Borrowings	11.7	–	16.0	–	–
New share issues	232.0	–	0.1	–	3.0
Cash flow for the period	111.5	48.8	–96.3	–103.4	15.2
Cash and cash equivalents at year-end	246.9	135.8	87.4	188.2	291.6

Key figures

	2011	2010	2009	2008	2007
Growth in net revenues, %	–5.2	–10.8	1.2	204.0	–41.8
Margins and profitability					
Gross margin, %	85.5	87.5	90.0	92.5	81.3
Profit margin, %	–200.1	–42.4	–41.0	–44.4	–225.2
Operating margin, %	–196.1	–38.8	–42.0	–48.2	–235.2
Return on total capital, %	–52.7	–11.9	–13.7	–13.9	–44.8
Return on shareholders' equity, %	–77.7	–17.9	–17.0	–16.8	–53.2
Return on capital employed %	–63.3	–14.2	–15.7	–16.9	–53.2
Capital structure					
Working capital, net, MSEK	1.7	–2.7	5.3	–50.3	–60.9
Working capital, net/net revenues, %	–0.2	0.6	–9.5	–23.8	–52.9
Operating capital, MSEK	185.2	436.3	477.2	381.6	379.7
Capital turnover rate, multiple	64.2	46.1	55.0	61.3	41.4
Shareholders' equity, MSEK	311.1	468.2	548.6	569.8	671.3
Net debt, MSEK	–125.9	–31.9	–71.4	–188.2	–291.6
Debt/equity ratio, multiple	39	22.2	–	–	–
Equity/assets ratio, %	57.0	65.7	84.5	81.2	83.7
Current ratio	301.4	188.3	233.7	213.2	292.3
Acid-test ratio	278.8	182.6	221.1	201.7	281.2
Interest coverage ratio, multiple	Neg	Neg	Neg	Neg	Neg
Employees					
Average number of employees	110	105	124	123	80
Of which engaged in R&D	80	71	93	92	54
Personnel expenses, MSEK	117.6	120.3	128.6	128.5	93.0
Data per share					
Before dilution					
Average number of shares, thousands	27,167	23,403	22,715	21,617	15,108
Number of shares at end of period, thousands	29,865	23,404	23,401	21,617	21,617
Earnings per share after tax, SEK	–14.43	–3.81	–4.3	–4.8	–11.4
Shareholders' equity, SEK	10.42	20.01	23.4	26.4	31.0
Cash flow from operating activities per share, SEK	–4.32	–1.84	–5.90	–4.69	–10.11
Dividend, SEK	–	–	–	–	–
After dilution					
Average number of shares, thousands	29,706	25,501	23,801	22,689	16,184
Number of shares at end of period, thousands	32,371	25,943	24,488	22,685	22,693
Earnings per share after tax, SEK	–14.43	–3.81	–4.3	–4.8	–11.4
Shareholders' equity, SEK	9.61	18.05	22.4	25.1	29.6
Cash flow from operating activities per share, SEK	–4.32	–1.84	–5.90	–4.69	–10.11

Other information

2012 Annual General Meeting
The Annual General Meeting of Orexo AB will be held on Wednesday, April 11, 2012 at 4:00 p.m. at Orexo AB, Virdings allé 32A in Uppsala, Sweden.

Registration, etc.
Shareholders who wish to participate in the Annual General Meeting must (i) be entered in the share register maintained by Euroclear Sweden AB (previously VPC AB) by Tuesday, April 3, 2012, and (ii) send their registration to Orexo by post to the following address: Orexo AB, Box 303, SE-751 05 Uppsala, Sweden, or by telephone on +46 (0)18 780 88 00 or by fax on +46 (0)18 780 88 88 or by e-mail to beata.augenblick@orexo.com no later than Tuesday, April 3, 2012.

The registration must include the shareholder's name, address, daytime telephone number, civic/corporate registration number, details of shareholding and information about any proxies/representatives.

To be entitled to participate in the Annual General Meeting, shareholders who have opted to place their shares in trust with a bank or other manager must temporarily re-register their shares in their own name in the share register maintained by Euroclear Sweden AB. Such re-registering must be enacted no later than Tuesday, April 3, 2012, which means that shareholders must notify their manager of their wishes in ample time before this date.

Full information about the Annual General Meeting can be found on the company's website, www.orexo.com.

Financial calendar 2012

Annual Report	March 21, 2012
2012 Annual General Meeting	April 11, 2012
Interim Report, January–March 2012	April 27, 2012
Interim Report, January–June 2012	July 12, 2012
Interim Report, January–September 2012	October 25, 2012

Contact Investor Relations
Beata Augenblick
+46 (0)18 780 88 00
beata.augenblick@orexo.com

Glossary

Anal fissures
Cracks in the rectum or anus.

Anesthesia
Procedure for lowering a patient's consciousness to enable a medical procedure to proceed without pain for the patient.

Arachidonic acid
A natural substance, which, through transformation to prostaglandins, leukotrienes and eoxins, regulates a number of inflammatory processes in the body.

Breakthrough pain
A short, intensive period of pain that occurs in addition to chronic levels of long-term pain even though these are treated by regular painkillers.

Buprenorphine
A strong, pain-relieving substance.

Clinical studies/Clinical trials
Studies on the safety and efficiency of a pharmaceutical in human beings.

COPD
Chronic Obstructive Pulmonary Disease, also known as "smoker's disease".

Drug delivery
The process through which a pharmaceutical may be introduced to the patient that enables the active compound to function as intended.

Eoxins
A newly discovered family of inflammatory mediators that are formed from arachidonic acid.

Fentanyl
An opioid with similar effects to morphine. Used mainly within anesthesia and analgesia.

Gastroesophageal Reflux Disease (GERD)
Severe heartburn caused by leakage of stomach acid through the hiatus sphincter up into the oesophagus.

Gastroscopy
Examination of the stomach, oesophagus or duodenum.

GMP
Good Manufacturing Practice.

Helicobacter pylori
A bacterium that can infect the mucous membrane lining of the stomach.

Joint Venture
A partnership in which companies combine assets or resources externally to form a new separate entity to work on the development of a project.

Leukotrienes
Inflammatory mediators formed from arachidonic acid.

LTC4s
LTC4 synthase – the enzyme that catalyzes the second step in the formation of leukotrienes and eoxins from arachidonic acid.

Mucoadhesive
Something which sticks to the surface of the mucosa.

Naloxone
Drug compound which causes nausea when taken intravenously with opioids.

NSAID
Non-Steroidal Anti-Inflammatory Drug.

Opioids
Collective term for compounds that act via opioid receptors on nerve cells, mainly in the central nervous system.

Opioid analgesic
Pain-relieving compound derived from synthetic or natural opium or morphine.

Pharmacokinetics
The processes by which a pharmaceutical is absorbed, distributed, metabolised and eliminated by the body.

Pharmacological properties
The characteristics or properties of a pharmaceutical, especially those which make it medically effective.

Phase I studies
Studies mainly on the safety of a drug. Performed on healthy human volunteers.

Phase II studies
Studies on the safety and efficacy of a drug in appropriate doses. Performed on a limited number of patients.

Phase III studies
Studies on the safety and efficacy of a drug in a clinical situation. Performed on a large number of patients.

Preclinical development/Preclinical studies
Studies on the safety and efficacy of a drug prior to evaluation in humans. Can be performed on animals or in various cell systems.

Rhinitis
Hay fever.

Sublingual
Beneath the tongue.

Transmucosal
Administration of a drug through the mucosa.

Urea
Also referred to as carbamide. A water-soluble, nitrogenous end-product of protein degredation. Main metabolite of urine.

Zolpidem
A pharmaceutical substance used to treat temporary or short-term insomnia.