orexo

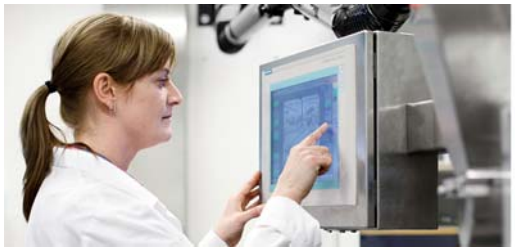
Annual Report 2010

Novo A/S becomes new major shareholder

Global alliance and license agreement with OMJ for new treatment of respiratory diseases

Positive Phase I results for OX219 for the treatment of opioid dependence

Contents



The Year in Brief

Net turnover, SEKm	Loss after tax, SEKm	Loss per share, SEK	Cash and cash equivalents, SEKm
2010 **210.5**	2010 **-89.2**	2010 **-3.81**	2010 **135.8**
2009 236.1	2009 -98.1	2009 -4.32	2009 87.4

KEY EVENTS DURING THE YEAR

Q1

- Registration application for Abstral® submitted in Canada.
- Registration application for Abstral® submitted in Japan.
- Novo A/S signed a directed issue of convertible bonds and acquired two major share blocks.
- An Extraordinary General Meeting held on 31 March approved the issue of convertible bonds.

Q2

- Orexo's Annual General Meeting was held on 21 April.
- Orexo entered into a global partnership and licensing agreement with Ortho-McNeil-Janssen Pharmaceuticals, Inc. and Janssen Pharmaceutica NV ("OMJ") for new respiratory disease medications.

Q3

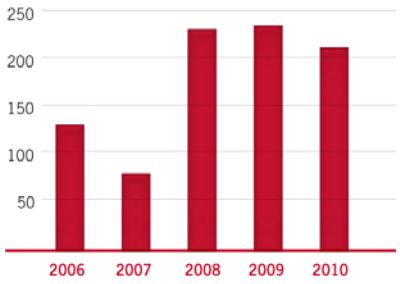
- Robin Wright appointed as new Chief Financial Officer.
- Orexo announced a new strategic direction and initiated three new development projects.
- Decision made on additional clinical trials for Abstral in Japan.
- Orexo and NewBridge signed a licensing and distribution agreement for Abstral in Africa and the Middle East.

Q4

- Petter Bäckgren appointed as new CEO of subsidiary Kibion.
- Strong positive phase I results reported for OX219.
- Partnership with Boehringer Ingelheim generated a milestone payment of SEK 57.6m as part of the OX-MPI project for the treatment of pain and inflammation.

Revenues 2006–2010

SEKm NET



Key financial indicators

	2010	2009	2008	2007	2006
Net turnover, SEKm	**210.5**	236.1	233.3	76.8	132.0
Growth, %	**–10.8**	1.2	204.0	–41.8	111.6
Loss for the year, SEKm	**–89.2**	–98.1	–103.1	–172.6	–33.0
Loss per share, before dilution, SEK	**–3.8**	–4.3	–4.8	–11.4	–2.5
Cash and cash equivalents, including short-term investments, SEKm	**135.8**	87.4	188.2	291.6	332.5
Shareholders' equity, SEKm	**468.2**	548.7	569.8	671.3	324.3
Average number of employees	**105**	119	123	80	50
Of whom work in R & D	**71**	93	92	54	31

CEO's Message

Orexo took a major step towards becoming a leading specialty pharmaceuticals company, with four products on the market now, four ongoing research and development collaborations and three new proprietary development programs.

Anders Lundström, President and CEO

During 2010, Orexo announced its new 2015 strategy, the focus shifting to developing new pharmaceuticals that we can launch with our own sales presence. This became possible as a result of the research agreement we entered into with OMJ. A more detailed description of our strategy can be found on page 10. In the past, our business model was based on developing pharmaceuticals that we licensed to other pharmaceutical companies. This new direction will see Orexo retain a greater proportion of the revenues generated when the products reach the market. The choice of projects is thus very important to us, and we will meticulously ensure that we have the resources to bring products all the way from concept to launch. In markets where we do not have, or have no intention of establishing, our own sales presence, we will enter into licensing agreements with strong partners.

Our development portfolio currently comprises three new projects:

- OX219 is based on a combination of buprenorphine and naloxone, and is intended for the treatment of opioid dependence. The initial pharmakokinetic trial showed positive results, and the next stage in the product development is now being prepared.
- OX51, for the treatment of acute, intense pain episodes, entered the clinical phase during the year and results are expected shortly.
- OX27, which focuses on the treatment of breakthrough pain in cancer patients, has entered the clinical phase and results will be reported during Q2 2011.

Orexo enjoyed a number of successes during 2010:

- Sales of Abstral increased to GBP 17.3m, and the product is now approved for use in all important EU markets. Abstral® was launched in Italy during September 2010, bringing the number of countries in which the drug is marketed to 18. In Europe, Abstral has already achieved a market share of around 24 percent for the fentanyl therapy treatment of breakthrough pain in cancer patients. This has been achieved in a highly competitive market against several competitor products.

- During the year, Orexo entered into its most significant research partnership to date – a licensing agreement with Ortho-McNeil-Janssen and Janssen Pharmaceutica (together OMJ), both part of the Johnson & Johnson Group. The agreement covers our OX-CLI and OX-ESI development projects. OMJ is a strong partner for these projects and is also contributing a project of its own in the same area to the collaboration. The development programs will be financed by our partner, who will also contribute to Orexo's research costs.
- Our research partnership with Boehringer Ingelheim achieved an important milestone when the initial candidate drug was selected. The candidate selection triggered a milestone payment.
- Sales in our Kibion subsidiary amounted to SEK 40m in 2010, with strong volume growth. At the end of the year, the company appointed a new CEO.
- Orexo was strengthened both financially and strategically during the year through the investment made by Novo A/S, which took the form of a convertible loan. This gave us both a strong owner and an active partner. The injection of SEK 111m made it possible to start work on developing our own product portfolio.

The reason for our success is the expertise and experience of our employees, all of whom performed exceptionally during the year. I am really looking forward to working alongside my new colleagues and building the new Orexo together.

We are looking forward to 2011 with a renewed sense of confidence. Abstral® is set to be launched in the US and we will continue to develop our projects and strengthen our organization in a way that will enable us to deliver our new strategy. We are expecting continued favorable growth in the sale of Abstral and new registration applications within the framework of licensing agreements through Newbridge for Africa and the Middle East, and through Invida for the most important remaining markets in Asia and Australia. We also expect that royalty revenues generated by Edluar™ will continue to increase.

We will continue to focus on becoming a strong and profitable specialty pharmaceuticals company, geared towards developing our own products for sale in one of the large commercial pharmaceutical markets, while at the same time developing the collaborative relationships we enjoy with all our partners. Rising royalty revenues, anticipated milestone payments and careful cost control, combined with strong owners and outstanding partners, afford us every opportunity of achieving this objective.

Uppsala, March 2011

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 accounts for the fiscal year January 1 – December 31, 2010. 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 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 by a partner, ProStrakan Group plc. Edluar™, a sublingual tablet containing zolpidem to treat cases of insomnia, is approved for use in the US and sold there by Orexo's partner Meda. Via its Kibion subsidiary, Orexo also markets two diagnostic products for the gastric ulcer bacterium Helicobacter Pylori, namely Diabact® UBT and Heliprobe® System.

Abstral is marketed in the Nordic region through ProStrakan AB, a joint venture with ProStrakan Group in which Orexo has a 50-per cent interest. This joint venture 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 development to the clinical phase. The company focuses on developing new, superior 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. In addition, it often also allows medicines to be developed at lower risk and in a shorter time compared with the development of new chemical entities.

Orexo also works on discovering pharmaceuticals based on the company's expertise in the arachidonic acid cascade. These projects are aimed at developing completely new medicines for the treatment of common medical conditions, such as inflammatory pain and respiratory diseases such as asthma and chronic obstructive pulmonary disease (COPD). The projects are financed by our partners.

To commercialize drugs 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 OMJ (global), 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 the registration and pharmaceutical manufacturing. Orexo has a GMP facility for the manufacture of drugs 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, 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 increasingly more complex projects in parallel and at different rates. At the year-end, work began on transferring the operation in Bath in the UK to Uppsala. Orexo has a total of 105 employees.

Key events during 2010

Orexo developed very well during 2010, with launched products showing positive growth during the year and the completion of partnerships across all discovery research programs, allowing the implementation of a strategy spearheaded by three new proprietary development projects. The information below outlines the most significant events during the year.

Abstral®
Abstral, a medicine for the treatment of breakthrough pain in cancer patients, continued its global growth. The product is now approved for use in 32 countries.

US
Abstral received approval in early January 2011 and ProStrakan plans to launch the product during Q1 2011. The approval process was extended by about six months as a result of the review of the risk management (REMS) program. Abstral is the first product to be approved in the US in accordance with the FDA's risk management plan for transmucosal fentanyl products. The REMS program for Abstral allows the drug to be prescribed via retail pharmacies and hospitals.

Italy
Abstral was approved for use in Italy, meaning that it is now approved on all five of the largest European markets. Orexo received a payment of SEK 6.3m from ProStrakan in respect of this approval.

Japan
In February, Orexo's partner Kyowa Hakko Kirin announced a collaboration agreement with Hisamitsu Pharmaceuticals Co. Ltd. concerning the marketing of Abstral in Japan, submitting a registration application for approval in Japan shortly thereafter.

The Japanese drug authority requested that a further study be carried out to confirm data on the safety and efficacy of the product. The registration application was withdrawn pending completion of this study. This will delay the launch of Abstral in Japan, although the work to secure approval is continuing.

Canada
A registration application for Abstral in Canada was submitted in February 2010 and the product received approval in February 2011. The drug will be sold by Paladin, which is ProStrakan's partner in Canada. The Canadian pharmaceuticals market is large, and is one of the fastest-growing markets in the world. Paladin plans to launch Abstral on the Canadian market during Q2 2011.

Distribution agreement in Africa and the Middle East
In September, Orexo and NewBridge Pharmaceuticals signed a distribution agreement giving NewBridge the exclusive right to market Abstral in more than 60 countries throughout Africa and the Middle East. The only exception to this is Israel, where Orexo already has an established collaborative relationship with Neopharm Ltd. Work on submitting registration applications is under way.

Distribution agreement in Australia and Asia
At the very beginning of January 2011, Orexo and Singapore-based Invida Group Pte Ltd signed a distribution agreement that gives Invida exclusive rights to market Abstral in 11 countries, including Australia, New Zealand, India, Indonesia, South Korea and Taiwan. Invida plans to submit registration applications in these countries during 2011. Orexo already has collaboration agreements with partners in Japan (Kyowa Hakko Kirin) and China (NovaMed).

Edluar™
Royalty revenues derived from Edluar during the year amounted to SEK 1.3m. The next stage in the development of the product may see registration applications submitted for other territories, a decision that will be made by Orexo's partner Meda AB.

Global alliance and licensing agreement signed with Johnson & Johnson
In June, Orexo signed an R&D and licensing agreement with Ortho-McNeil-Janssen Pharmaceuticals, Inc and Janssen Pharmaceutica NV (together known as OMJ), both of which are part of the Johnson & Johnson Group.

The agreement grants OMJ global licenses to Orexo's in-progress OX-CLI and OX-ESI programs that aim to discover and develop drugs for new, improved treatments of asthma, chronic obstructive pulmonary disease and other inflammatory diseases. In addition to this, OMJ will also provide a third program within the same area.

The agreement will initially run for three years, with OMJ having the option to extend the collaborative relationship and research funding. This collaboration will give Orexo access to research funding of up to SEK 167m over the first three years, including an initial payment of SEK 77.8m.

Successful development and commercialization of all three partnered programs will entitle Orexo to development milestones of up to SEK 4.4 billion, and the opportunity to receive further sales level payments. Commercialized products will also enable Orexo to receive royalty payments.

Furthermore, the agreement also gives Orexo the opportunity to co-market the products with OMJ in the Nordic region and the Baltic states.

OMJ will assume full responsibility for development and commercialization of the products.

Important milestone in collaboration with Boehringer Ingelheim
In December, a milestone progress was reported in the research collaboration Orexo has with Boehringer Ingelheim. A candidate drug for further clinical development was selected, thereby

triggering the first milestone payment to Orexo of SEK 57.6m in January 2011. Future payments will be due when further milestones are achieved. In addition to this, royalties will also be payable on future sales.

New development projects

With the research collaboration with OMJ in place completing the partnership of all discovery programs, a new strategy has been initiated and three new development programs have started. The programs have all initiated Phase I pharmacokinetic studies, the results of which will form part of the basis for a decision concerning future development.

OX219 is designed for the treatment of opioid dependence and the clinical program began in August. In December, positive results were reported from its initial pharmacokinetic study. Successful discussions with the US FDA relating to the continuation of the clinical development program took place at a pre-IND meeting held during February 2011.

OX51 aims to prevent and treat acute, intense pain episodes that are currently treated using local anesthetics, sedatives and/or strong painkilling drugs that require a relatively long recovery time after treatment. It is estimated that the product can be used for around 100 million acute intense pain episodes per year. The project entered the clinical phase during Q4 2010 and results are expected shortly.

OX27 focuses on the treatment of breakthrough pain in cancer patients. The project entered the clinical phase during Q1 2011 and results are expected during Q2 2011.

These projects are described in more detail on page 12.

Ownership changes

Following a decision at an Extraordinary General Meeting in March, a convertible debt issue of SEK 111m was placed directly with Novo A/S. At the same time, Novo acquired two major shareholdings from Apax Partners and SLS Ventures. The conversion price of the convertible loan entails a premium of 25 percent compared with the closing price on March 12, 2010.

In August, Novo acquired a further shareholding from Sofinnova. Assuming full conversion of the convertible debt, Novo's ownership of Orexo would amount to 24.2 per cent.

OX914 terminated

As a result of the new strategy, the OX914 project was given lower priority during 2010 and the project has been terminated. A writedown of SEK 24.1m during Q4 means that the project now has a nil book value.

Management changes

In August, Robin Wright assumed the role of Chief Financial Officer. Robin has been Senior Vice President of Business and Commercial Development for Orexo since 2008, and will also continue in this role. He has extensive international experience as a financial advisor and finance director.

In November, Petter Bäckgren was appointed new CEO of the Orexo subsidiary Kibion. Petter's task will be to grow Kibion into a leading diagnostics company within its area through a process of sales development and investment.

In that same month, Camilla Sjödahl became CEO of joint-venture company ProStrakan AB. Camilla will continue to build on the progress made by the company over the past three years and will develop it into a strong Nordic sales channel.

Orexo's new strategy builds on the company's core expertise within research and development, which has been the basis for developing several successful products currently marketed by our partners in the EU and the US. Abstral® is the most promising of these products.

Significant events after the end of the fiscal year

- **In January 2011, Anders Lundström** was appointed CEO to drive the company's commercial development forward. He joins Orexo from the US company Biogen Idec, one of the world's leading biotechnology firms.
- **In January 2011,** Abstral® received approval from the American Food and Drug Administration (FDA). ProStrakan plans to launch Abstral in the US during Q1 2011. Abstral is the first product to be approved in the US in accordance with the FDA's risk management plan (REMS) for transmucosal fentanyl products. The REMS program for Abstral allows the drug to be prescribed via retail pharmacies and hospitals.
- **In February 2011, Abstral was approved for use in Canada** by the Public Health Agency of Canada. Orexo has licensed Abstral to ProStrakan for the European and North American markets. ProStrakan sub-licensed the rights to the Canadian market to Paladin in 2008.
- **In January 2011, Orexo** entered into an exclusive licensing and distribution agreement for Abstral in major Australasian markets with the Invida Group. Invida will be responsible for dealing with regulatory and medical issues, along with marketing and sales in 11 countries in Asia and the Pacific region.
- **The Extraordinary General Meeting** held on February 16 decided to adopt the 2011/2021 performance-based, long-term incentive program for Orexo's senior executives.

Orexo 2015 – a new strategy

Thanks to the research agreement with OMJ completing the partnership of our discovery activities, we can now roll out a new strategy to build a portfolio of new products developed in-house that are marketed and sold through a proprietary organization in either Europe or the US. The aim is to develop Orexo into a fully integrated specialty pharmaceuticals company. Existing research collaborations are important assets in this new strategy, both in terms of finance and expertise. We will search out license agreements for regions where Orexo has no intention to establish a marketing organization of its own.

Strategic focus

The proprietary product portfolio will focus on pain relief and anti-inflammatory drugs. Sales channels will be focused on specialist physicians and healthcare centers.

It may also be relevant to sell products within other indication areas to the same or other market segments, provided that this does not negatively impact the company's portfolio or strategy.

The company currently has sufficient financial resources to take at least one of the projects all the way to launch. Cash flow from royalties, sales and licensing is an important part of being able to expand under this new strategy.

The new programs

Orexo's first three proprietary programs are:

- OX219 for the treatment of opioid dependence,
- OX51 for the treatment of intense acute pain episodes,
- OX27 for the treatment of breakthrough pain in cancer patients.

A detailed description of the programs is provided on page 12.

Development of marketing and sales organization

Gradually, as the product portfolio is developed, it will be necessary to establish a full marketing and sales organization, focusing on the segments, regions and countries in which the products are launched directly by Orexo.

There are three main alternatives for this:

1. building up a sales force specifically for the launch of the first product,
2. acquiring an existing sales force and adapting it to the first launch,
3. acquiring or licensing one or more products, building up a sales force around these that can then be used during the launch of the in-house product.

Orexo is currently analyzing these alternatives.

Market selection

Once these in-house projects have undergone further development and the commercial potential has become clearer, a selection will be made to determine on which of the two leading pharmaceuticals markets, the US or the EU, the first product is to be launched via a proprietary marketing organization.

Orexo believes that the first proprietary program will be ready for approval on a major market within three years. This provides sufficient time to adapt to market changes and to plan for a successful launch. It also affords the opportunity prior to launch to develop a sales organization by acquiring or in-licensing products that have already been approved. This reduces the level of risk and increases the potential for a faster return, should such a commercial opportunity arise. Orexo continuously evaluates such alternatives based on the value they can create for shareholders.

Orexo – a specialty pharma company showing strong growth

Orexo's products are sold throughout the world.

Product	Region
Abstral®	Europe and the US
Edluar™	US
Diabact® UBT and Heliprobe® System	Africa, Asia, Australia, Central America, Europe, Middle East and South America

Proprietary programs

OX219 TREATMENT OF OPIOID DEPENDENCE

The aim of OX219 is to create a new, patentable drug for the treatment of various forms of opioid dependence. The active substance in OX219, buprenorphine, has documented good efficacy in the treatment of opioid abuse within the framework of medical, social and psychological rehabilitation. Buprenorphine is effective against withdrawal symptoms and blocks the "high" effects of other opioids. OX219 also contains naloxone, which counteracts the "high" effect that may arise following the intravenous injection of a dissolved tablet. Combining buprenorphine and naloxone in a single tablet reduces the risk of intravenous abuse and illegal dealing.

Project status
An initial pharmacokinetic study was carried out during the year. The study showed good results compared with the competing preparation Suboxone®, which is the current market leader for the treatment of opioid dependence. Successful discussions with the US FDA about the clinical development program took place in a pre-IND meeting held during February 2011.

Market
Use of the market leading product, Suboxone has grown over the past few years and the product is now selling for around 1.2 billion per year (IMS 2010), with the bulk of sales in the US. Patent protection for Suboxone expired in November 2009.

OX51 TREATMENT OF ACUTE INTENSE PAIN EPISODES

Work on a new project, OX51, began during the year. The project aims to develop a sublingual preparation for preventing and treating acute intense pain episodes. The project entered the clinical phase during the year and a Phase I study was initiated. The market for this product is estimated to be 100 million acute intense pain episodes per year in the EU and the US.

OX27 TREATMENT OF BREAKTHROUGH CANCER PAIN

Another project focusing on the treatment of breakthrough pain in cancer patients - OX27 was also started. The project entered the clinical phase during Q1 2011 and a Phase I study was initiated.

The market for treating breakthrough pain in cancer patients is thought to be worth around USD 1.5 billion in the EU and the US.

Sublingual mucoadhesive tablet

The fast and reproducible absorption of the active substance makes this administration technique ideal for the treatment of conditions that require fast-acting effect, such as acute pain.

Financial assets

Partnered programs from which Orexo can receive royalties, milestone payments and other forms of partner financing.

Abstral® – treatment of breakthrough cancer pain

FORMULATION | PHASE I | PHASE II | PHASE III | LAUNCH

Partners: ProStrakan Group plc (Europe + US), Kyowa Hakko Kirin (Japan) and Gedeon Richter, NovaMed 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 optimal treatment.

ProStrakan started sales of Abstral in Europe in 2009. During the year, Abstral strengthened its position on the European market, with sales totaling GBP 17.3m. The market share for the drug on the five largest European markets during the year was 24 percent, calculated in the number of doses of fast-acting fentanyl product (source: IMS data, 2010). Abstral was launched in a further 12 European countries during the year.

ProStrakan submitted a registration application to the US FDA in June 2009. The approval process was extended by around six months, with the product receiving final approval in January 2011. The market for fast-acting fentanyl products in the US is valued at USD 550m (source: Wolters Kluwer, August 2010. MAT).

In February, Kyowa Hakko Kirin submitted a registration application for Abstral in Japan. The Japanese Pharmaceuticals and Medical Devices Agency (PMDA) decided that it was necessary to supplement the application with additional data. Kyowa Hakko Kirin has withdrawn the application and intends to conduct the study requested by the PMDA.

For other geographical areas - CIS (Gedeon Richter), China (NovaMed) and Israel (Neopharm) - the registration process continues on schedule. Neopharm submitted a registration application to the Israeli pharmaceuticals product agency in July 2010.

A license agreement was signed with NewBridge Pharmaceuticals (registered office in Dubai) during the year covering the distribution of Abstral in the Middle East and Africa for a total of 64 countries.

EDLUAR™ – short-term treatment of insomnia

Partner: Meda

Edluar is an insomnia treatment based on the active substance zolpidem using Orexo's sublingual tablet technology. Zolpidem is a well-documented substance that has been used for a long time against 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 the global rights to Edluar.

The number of prescriptions issued during the year has more than doubled (2.6 times).

OX-NLA TREATMENT OF RHINITIS

Partner: Meda

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). Orexo has developed a new formulation of cetirizine that can be administered directly in the nose by means of a spray.

Clinical Phase II studies of OX-NLA have shown favorable and fast-acting results, making OX-NLA suitable for "on-demand" treatment. The nasal spray has a favorable tolerance without causing local side effects in the form of stinging and pain.

The international specialty pharmaceutical company Meda has acquired a global license for OX-NLA and combination products based on this technology. Meda is responsible for the continuing development of the project.

Market

Allergic rhinitis (hay fever) causes swelling in the mucous membranes of the nose, leading to nasal congestion, runny nose, itching and sneezing. The reaction can be triggered by, for example, contact with animals, dust or pollen.

Allergic rhinitis has become much more prevalent in the past 20 years, with around 25 percent of the population in the Western world currently suffering from the condition. Rhinitis can also be non-allergic and triggered by odors, cold air and tobacco smoke.

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. Current treatments either provide fast, short-term effects or slow, but lasting relief. OX17 provides both a prompt and prolonged effect.

In August 2009, Orexo signed a licensing agreement with Novartis regarding OX17 for use in gastro-intestinal disorders. Novartis will be responsible for all future development costs

Market

During 2010, sales of H2-receptor antagonists amounted to USD 3 billion, and sales of proton pump inhibitors (PPIs) to USD 24 billion.

OX-MPI

TREATMENT OF PAIN AND INFLAMMATION

Partner: Boehringer Ingelheim

The first milestone for OX-MPI was achieved during 2010 when Boehringer Ingelheim GmbH selected a candidate drug for clinical development within the scope of the joint global exclusive research, development and commercialization agreement.

According to the terms of the agreement, which Boehringer Ingelheim signed in November 2005 with research company Biolipox (a company acquired by Orexo in November 2007), Boehringer Ingelheim will make additional payments once further milestones are achieved. In addition to this, royalties will also be paid on future sales.

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

The aim is to develop a completely new class of drug for the treatment of inflammatory pain. The collaboration focuses on Orexo's prostaglandin research target PGE2. PGE2 is a substance that plays a pivotal role in many inflammatory processes, the aim of the project being to produce a compound that specifically blocks its formation in the body. It is believed that such a product would be as effective as major pain relief drugs currently available on the market, such as NSAID preparations, but with fewer side effects.

OX-CLI

TREATMENT OF ASTHMA/COPD

Partner: Ortho-McNeil-Janssen Pharmaceuticals / Janssen Pharmaceutica

During 2010, Orexo signed a three-year cooperation and licensing agreement with Ortho-McNeil-Janssen Pharmaceuticals, Inc. and Janssen Pharmaceutica NV ("OMJ"), both part of the Johnson & Johnson Group. The alliance aims to identify and develop small molecules for new, innovative treatments for asthma, chronic obstructive pulmonary disease (COPD) and other inflammatory diseases. Under the terms of the agreement, OMJ will be responsible for all clinical development and commercialization, including costs.

The aim of the OX-CLI project is to develop an oral, non-steroidal, anti-inflammatory and bronchodilatory drug for the treatment of all stages of asthma and COPD. The target protein in the project is the enzyme LTC4 synthase, which plays a central role in the inflammatory process by acting as a catalyst in the final stage of formation of leukotrienes and eoxins, which are two groups of major pro-inflammatory mediators. The broad mechanisms of action indicate that more effective treatment would be achieved than with current oral treatment alternatives such as montelukast (Singulair®).

Orexo has developed several series of molecules and established a patent portfolio of potential drug candidates that inhibit LTC4 synthase. A number of substances have shown good effects in various pharmacological models. Work is continuing to optimize the biological effects and other characteristics of these substances that are important for the production of an effective and safe drug.

OX-ESI

TREATMENT OF ASTHMA/COPD

Partner: Ortho-McNeil-Janssen Pharmaceuticals / Janssen Pharmaceutica

This project is aiming to develop a drug that inhibits the enzyme 15-lipoxygenase (15-LO). This enzyme is believed to play a key role in the inflammatory process, including during eoxin formation, and can be found in larger quantities in the airways of smokers and patients with chronic bronchitis or asthma than in those of healthy non-smokers. Orexo has developed several series of molecules and built a patent portfolio of potential drug candidates that inhibit 15-LO.

Kibion AB

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 in the stomach.

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, i.e. 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.

Use of breath testing is increasing and is recommended by leading experts as a full-value 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 doctors. 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 as many as 80–90 percent of the population may be infected. In Sweden, it is estimated that around 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 50 countries, primarily in Europe, the Middle East, Southeast Asia and Latin America. Kibion employs distributors to handle its sales, mainly small to medium-sized companies that can give products maximum attention.

During 2010, the volume of tests sold increased by around 10 percent. Sales amounted to SEK 40m, which is slightly lower than in 2009 (SEK 40.7m), due to the strong development of the Swedish krona. The negative currency effect was approximately SEK 3.7m.

Kibion foresees good organic growth potential on established markets. The conditions for establishment on new markets are continually being assessed and product launches take place in countries that have good potential for growth and profitability. Kibion also continually evaluates acquisitions of other companies and products that are a fit for its existing structure.

Organization

Kibion's organization currently comprises 10 employees within the following core functions: Marketing and Sales, Supply, Regulatory and Finance.

Petter Bäckgren became the new President of Kibion during Q4 2010. Petter has a proven track record of sales and marketing, and has managed companies in the pharmaceuticals and diagnostics industry, both in the Nordic region and beyond. He joins Kibion from DiaSorin, where he had headed the clinical diagnostics division for the British, Irish and Nordic region since 2009. Prior to this, Petter had worked at Novartis, where he was head of regional operations and acted as head of sales within the public medicine area.

ProStrakan AB

ProStrakan AB
ProStrakan AB began operations in March 2005. Since July 2007, the company has been owned equally by ProStrakan Group plc and Orexo.

ProStrakan AB markets four pharmaceutical preparations: Abstral®, which was developed by Orexo, and three other drugs originating from ProStrakan Group plc. The company has a staff of seven, who work on sales and marketing and the company is represented in Denmark, Finland, Norway and Sweden.

During 2010, the company's sales increased 14 percent, from SEK 21.6m in 2009 to SEK 24.5m in 2010, and it is expected that this favorable development will continue during 2011.

ProStrakan AB markets the following products:
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 patients that good treatment is now available. 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 drugs 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 a treatment alternative which 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 during the year was weak.

Arachidonic acid research

During the year, Orexo's arachidonic acid research took a major step forward when a research alliance and license agreement was signed with Ortho-McNeil-Janssen and Janssen Pharmaceutica (OMJ), operating arms of the Johnson & Johnson Group.

The partnership builds on Orexo's world-leading expertise within the field of arachidonic acid research and the company's two preclinical programs, OX-CLI and OX-ESI, which aim to develop new, effective drugs in the treatment of serious respiratory diseases such as asthma and chronic obstructive pulmonary disease (COPD). In addition to this, OMJ is contributing a third program in this area to the alliance. The agreement will initially run for three years, with OMJ having the option to extend the collaboration and research funding.

About arachidonic acid

Arachidonic acid is important to many reactions in the body. When cells are activated by certain internal or external stimuli, arachidonic acid is converted to various biologically active substances (mediators), such as prostaglandins, leukotrienes and eoxins. These mediators are primarily involved in the development of inflammatory diseases. Prostaglandins play an important role in the regulation of blood pressure and blood coagulation, but can also be responsible for inflammation, pain and fever. Leukotrienes can cause asthmatic symptoms such as bronchial contraction, swelling and mucus formation, which in turn can lead to breathing difficulties. Originally identified by Orexo, eoxins are mediators, that have been shown to be important for various inflammatory processes, particularly in the airways.

Many of the most common popular drugs currently used to treat inflammatory diseases affect the formation or effect of prostaglandins and leukotrienes.

80 million

suffering from moderate to severe COPD

About the respiratory disease market

Asthma is a chronic inflammatory disease that affects 6–8 percent of the adult population and is currently the most commonly diagnosed chronic disease in children, with about 10 percent affected. The biggest challenge in treating asthma is identifying an effective treatment, especially for patients that are not responsive to current medications.

COPD (chronic obstructive pulmonary disease) is an extensive permanent inflammation of the airways that leads to impaired lung function. According to the latest figures from the WHO, 80 million people worldwide suffer from moderate to severe COPD. By 2030, COPD will be the third most common cause of death in the world, according to the American National Heart, Lung and Blood Institute. The treatment of acute exacerbations (severe worsening of condition) is a critical medical requirement (for both patients and healthcare professionals) and thereby constitutes an important market for new, effective drugs.

Sales of drugs to treat diseases affecting the respiratory system, primarily asthma and COPD, in the seven largest national markets amounted to around USD 26 billion during 2009. Innovative non-steroidal anti-inflammatory treatments are seen as being the next generation of treatment for these diseases.

Employees and sustainable development

The expertise of its employees is a key factor behind Orexo's success. This high level of competence results from the high educational levels attained by staff, 28 percent of whom have doctorates and a further 55 percent of whom hold another academic degree.

Employees

Orexo is home to many different specialist competences that successfully collaborate and complement each other within various projects. Management and other key personnel have extensive experience of the pharmaceuticals industry and core competence in pharmaceutical chemistry, galenic pharmacy, analytical chemistry, preclinical and clinical development, regulatory affairs, project management, pharmaceutical development and business development. The operations places high demands both on the employees and on creating and maintaining an innovative, high-performance corporate culture. To ensure its cutting-edge knowledge and access to expertise, Orexo has an active exchange of know-how with an international network of specialists and strong links with the Karolinska Institute and Uppsala University.

At year-end, Orexo had 105 employees, which is a decline from 108 employees in the preceding year. About 75 percent of the employees were active in research and development. Of the employees, 62 percent (60) were women. Of the six (six) members of the executive management team, two (two) were women and among the eight (eight) Board members, there was one (one) woman.

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

As part of the effort to recruit and retain employees, Orexo strives to provide an appreciated workplace with a good working environment. Employees are offered benefits for fitness activities and preventive healthcare and ergonomics through occupational health services. Orexo conducts systematic working environment activities in cooperation with safety representatives and the responsibility for work environment is delegated to the line organization.

Orexo's values of business focus, respect and drive are important to achieving the company's goals. Orexo's management and Board have drafted the strategic business goals on an overall level. Based on these overall goals, the managers, together with their employees, are responsible for producing objectives on both departmental and individual level. At the beginning of each fiscal year, the efforts of departments and employees are assessed and an evaluation of goal fulfillment is carried out as the basis of the annual salary review. In this way, Orexo works towards shared goals where results and performance are rewarded.

Sustainable development

As a pharmaceutical company, Orexo strives to contribute to society in general by reducing suffering and improving quality of life for patients. Pharmaceutical manufacturing is largely regulated by law or regulatory bodies. Based on these regulations, Orexo has established guidelines and policies that regulate and govern the business.

Environmental impact

Orexo has the policy of conducting its business operations with the least possible impact on the environment. Operations primarily consist of the development and manufacture of solid dry formulations, such as tablets. Manufacturing is done on a laboratory and pilot scale.

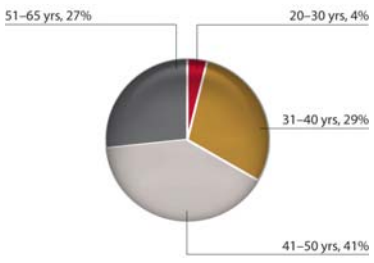
Orexo is subject to the Swedish Environmental Code, with rules that are specifically aimed at controlling emissions to air and water, and other emissions into the environment, as well as the generation, handling, storage, transport, treatment and disposal of waste. All chemicals, pharmaceutical substances, solvents and excipients are handled in accordance with Orexo's current procedures, meaning that handling is done in closed systems to the furthest possible extent in order to minimize emissions to wastewater or air. The pharmaceutical waste produced by operations is collected and processed as hazardous waste.

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

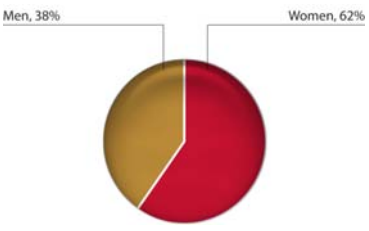
Ethical practice in clinical studies

Orexo conducts clinical studies in conjunction with specialist partners. Studies are designed in consultation between Orexo and the partner in question. Studies require regulatory and ethic approvals and must be designed and carried out in compliance with regulations and ethical practices in various countries.

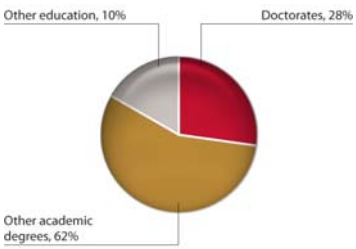
Age distribution



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 3,656 shareholders and the non-Swedish shareholding in the company amounted to 31 percent.

The Orexo share is listed on the NASDAQ OMX Nordic Exchange in Stockholm under the symbol ORX. The last price paid in 2010 was SEK 40.80 (36.60), corresponding to a market capitalisation of SEK 955m (856m). The highest closing price for the year for the Orexo share was SEK 46.40 SEK, quoted on March 25. The lowest quotation was SEK 33.80 on March 2.

At the beginning of the year, the share exhibited a positive trend, but then turned downward. The price increased by 11 percent during the year, which was below the comparative index. The OMX Stockholm PI (general index) rose 23 percent and OMX Stockholm Biotechnology rose 40 percent.

Since its listing on the Nordic Exchange in Stockholm on November 9 2005, Orexo's share price has fallen 55 percent. This is significantly weaker than the trend for the OMX Stockholm index, which increased by 31 percent for the same period. The development of the OMX Stockholm Biotechnology Index during the same period was positive, with an increase of 68 percent.

Liquidity

In total, 14.0 (11.7) million shares in Orexo were traded in 2010, corresponding to a value of around SEK 562m (466m). The daily average trading volume was 55,400 shares, corresponding to a value of SEK 2.2m.

Ownership

At year-end, Orexo had 3,656 (3,681) shareholders, of which 402 were registered as legal entities and 3,254 as private individuals. Of the share capital, 69 (72) percent is held by shareholders registered in Sweden and 31 (28) percent by non-Swedish shareholders. The largest proportion of shareholders registered outside Sweden can be found in Denmark at 18 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 March 31 resolved to approve the issue of convertible preference notes to Novo A/S. After conversion, Novo's shareholding will amount to approximately 24 percent.

Shareholders, Dec. 30 2010

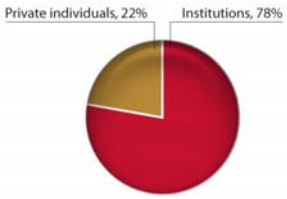
	Number of shares	%
HealthCap	5,632,971	24.1
Novo A/S	3,893,184	16.6
AP3	1,206,798	5.2
Rasjö, Staffan	1,039,323	4.4
AP4	907,898	3.9
Länsförsäkringar funds	569,347	2.4
Försäkringsaktiebolaget Avanza pension	524,105	2.2
Lundqvist, Thomas	495,250	2.1
Credit Agricole Private Equity	474,875	2.0
Nyström, Christer	301,000	1.3
Brohuvudet AB	300,000	1.3
HSBC Private Bank	300,000	1.3
JP Morgan Bank	260,550	1.1
Nordnet Pensionsförsäkring AB	247,131	1.1
Pyrinox AB	227,940	1.0
Gamla livförsäkringsaktiebolaget	215,600	0.9
Others	6,807,780	29.1
Total number of shares	**23,403,752**	**100.0**

Known shareholders in Orexo, source: Euroclear Sweden AB.

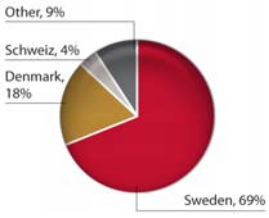
Ownership structure

	Number of shareholders	Number of shares	%
1–500	2,426	470,528	2.0
501–1 000	590	516,689	2.2
1 001–5 000	444	1,020,856	4.4
5 001–10 000	91	676,470	2.9
10 001–15 000	19	248,047	1.1
15 001–20 000	15	270,392	1.2
20 001–	71	20,200,770	86.3
Total	**3,656**	**23,403,752**	**100**

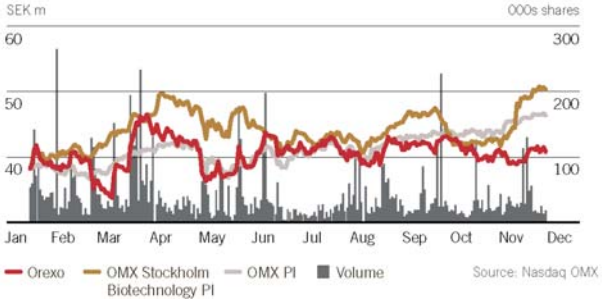
Participating interests



Ownership dist. by country



Performance during 2010



Financial trends during 2010

Condensed consolidated statement of operations

SEKm	2010 Jan-Dec	2009 Jan-Dec
Net revenues	**210.5**	**236.1**
Cost of goods sold	–26.3	–23.6
Gross profit	**184.2**	**212.5**
Selling expenses	–35.2	–39.3
Administrative expenses	–46.8	–46.3
Research and development costs	–186.9	–224.2
Other operating income and costs	3.0	–1.8
Operating loss*	**–81.7**	**–99.1**
Net financial items	–7.5	2.1
Profit/loss after financial items	**–89.2**	**–96.9**
Tax	–	–1.1
Net profit/loss for the period	**–89.2**	**–98.1**

*Includes costs for employee stock options of SEK 3.3m for the period January-December 2010 (SEK 8.2m January–December 2009).

Revenues

Net revenues

Net revenues for the period January-December 2010 totalled SEK 210.5m (236.1m). The significant increase in royalty receipts was offset by lower license revenues and reduced payments from partners to fund research.

During Q4 2010, net revenue totalled SEK 109.1m (27.9m). The higher net revenue in this quarter is primarily attributable to a payment of SEK 57.6m resulting from milestone progress in the agreement with Boehringer Ingelheim.

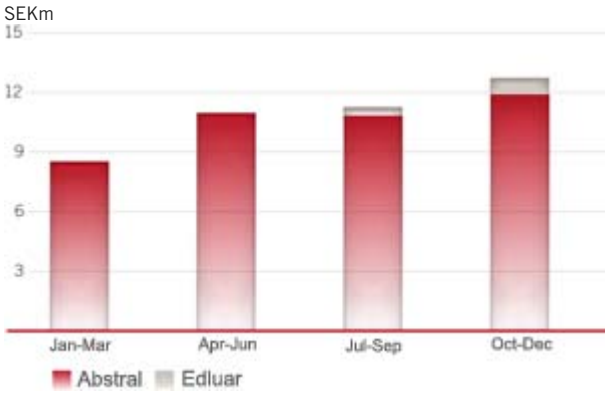
During Q2, Orexo entered into an alliance and licensing agreement with Ortho-McNeil-Janssen Pharmaceuticals Inc. and Janssen Pharmaceutica NV. The agreement initially runs over a three-year period. The upfront payment of SEK 77.8m, which was received at the time the agreement was signed, will be released as income evenly over the course of the three years. As a result, Orexo will receive and report this amount as part of license revenue for the research alliance on a rolling basis during the period.

Net revenues were distributed as follows:

Net revenues

SEKm	2010 Jan-Dec	2009 Jan-Dec
Abstral royalty	42.2	16.2
Edluar royalty	1.3	2.3
ProStrakan AB J/V 50 %	12.3	10.8
Kibion AB	39.9	40.7
Total revenue from launched products	**95.7**	**70.0**
Partner-financed R&D costs	33.8	46.4
License revenue	81.1	119.5
Other	–0.1	0.2
Total	**210.5**	**236.1**

Royalty revenues



Royalty revenues from Abstral® amounted to SEK 42.2m during the year, compared with SEK 16.2m in the preceding year, an increase of 160 percent. Part of this increase occurred during Q2 related to the build-up of inventory prior to the launch of the product in Italy. Sales of Edluar™ increased from a low level, generating royalty revenue from July onwards when the initial inventory was depleted. In total, royalty revenues for Edluar amounted to SEK 1.3m.

Kibion's sales for the year amounted to SEK 39.9m (40.7m), following a strong recovery during Q4. Growth in the volume of UBT tests was approximately 10 percent. The reduction in sales value was related to a marked weakening of the Euro during 2010 (producing a negative currency effect of about SEK –3.7m).

ProStrakans AB's sales increased to SEK 24.5m (21.6m). Of this increase, 50 percent is reported in Orexo's turnover. Sales of Abstral made via ProStrakan AB increased to SEK 12.3m (10.8m).

Licensing revenues amounted to SEK 81.1m (119.5m). These revenues are primarily in respect of the milestone payment received from Boehringer Ingelheim of SEK 57.6m and the revenue-derived portion of the upfront payment received from Ortho-McNeil-Janssen Pharmaceuticals Inc. The preceding year's licensing revenues are primarily derived from the milestone payment from Meda for approval of Edluar for sale in the US.

Expenses and earnings

Selling expenses

Selling expenses for the full year amounted to SEK 35.2m (39.3m). Selling expenses include costs for business development linked to the licensing of Orexo's projects, operating costs in Kibion AB and the joint-venture company ProStrakan AB. For 2010, this item also includes costs for Phase IV studies following the launch of Abstral in Europe that will provide doctors with additional product data.

Administrative expenses

Administrative expenses for the full year increased slightly to SEK 46.8m (46.3m). These expenses include an allocation for costs related to severance pay for the former CEO and CFO and a convertible issue to Novo A/S.

Expenses for the company's employee stock option program

The company's expenses for the employee stock option program for the full year 2010 amounted to SEK 3.3m (8.2m). Of these expenses, SEK 2.7m (4.0m) is attributable to administrative personnel, SEK 0.5m (3.4m) to research and development personnel and SEK 0.1m (0.8m) to sales-related personnel.

Research and development costs

Research and development costs amounted to SEK 186.9m (224.2m). Of this, SEK 33.8m (46.4m) was covered by collaboration partners, with the payments included in net revenues. This reduction is attributable to responsibility for, and the cost of, the OX-MPI project being transferred to Boehringer Ingelheim in December 2009. The cost of impairment losses applied to projects amounted to SEK 25.8m (2.0m).

Significant cost reductions took place at the beginning of 2010 as the result of lower external costs in development projects, personnel reductions and the relocation of laboratories from Solna to Uppsala carried out during 2009.

Depreciation/amortization

Depreciation and amortization for the full year amounted to SEK 9.6m (10.5m).

Net financial items

Net financial items for the period January-December 2010 amounted to an expense of SEK –7.5m (2.1m). Net financial items include interest expenses of SEK 8.7m related to the convertible loans. Net financial items also include unrealized exchange rate losses and other credit charges such as lease interest.

Tax

Tax costs for the full year amounted to SEK 0m (1.1m). There were no significant tax liable events or deferred tax items during the year.

Net result

Operating loss amounted to SEK –81.8m (–99.1m). The loss after net financial items amounted to SEK –89.3m (–96.9m), with the after-tax loss totalling SEK –89.2m (–98.1m).

Financial position

Cash and cash equivalents amounted to SEK 135.8m (87.4m) at December 31 2010.

Cash flow from operating activities resulted in a deficit of SEK –43.0m (–133.9m). Cash flow after financing amounted to SEK 48.8m (–95.7m). Shareholders' equity at December 31 2010 amounted to SEK 468.2m (548.7m). The equity/assets ratio was 66 percent (85%).

During the year, the company extended its credit line with Nordea to SEK 35m (16m) in order to increase operating capital.

Investments

Gross investments in tangible fixed assets amounted to SEK 3.4m (2.6m).

Parent Company

Most of the Group's business is carried out through the Parent Company, Orexo AB. Net revenues for 2010 amounted to SEK 113.0m (208.2m), with the loss after financial items totalling SEK –118.6m (–41.3m). Investments amounted to SEK 3.4m (3.2m). Cash and cash equivalents in the Parent Company at December 31, 2010 amounted to SEK 101.4m (12.8m) and current investments to SEK 0.0m (0.0m).

Pledged assets and contingent liabilities

In the acquisition of Inflazyme in November 2007 a supplemental payment was agreed, contingent on the attainment of certain goals. Of this payment, part was reported as a provision and part as a contingent liability as it was not judged to be a likely disbursement based on pharmaceutical development statistics. The Inflazyme project was terminated during the year, but is still available for licensing. Consequently, the supplemental payment is reported entirely as a contingent liability of SEK 45.5m.

As cash flow collateral for social charges in respect of employee stock options issued by Biolipox, subscription options have been issued to Pyrinox AB. Orexo has undertaken to cover any shortfall over and above that covered by the subscription options during the period up to December 31, 2016.

Orexo acquired British pharmaceutical company PharmaKodex in February 2009. The acquisition includes contingent payments based on license revenues derived from PharmaKodex's current programs and technologies, as well as payments for certain milestones not recognized as a liability.

Orexo has a loan of SEK 35m from Nordea, collateral for which comprises chattel charges of SEK 44m and the pledging of all shares in Kibion AB.

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 in the development stage, 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 pharmaceutical candidate that demonstrates good effectiveness 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 drug. 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 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 are 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. Even changes to the healthcare system could 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 an employee stock option program that was approved by the shareholders at an Extraordinary General Meeting held on February 16, 2011. Further information about this program is provided in Note 15 on page 51.

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.

In March 2010, an Extraordinary General Meeting decided to carry out a directed convertible issue of SEK 111m to the Danish company Novo A/S. The conversion price of the convertible loan is set at a premium of 25 percent compared with the closing price on March 12, 2010.

With the lower cost base in 2010, the receipt of the significant milestone payment from Boehringer Ingelheim in January 2011 and the extended credit facility of SEK 35m obtained in February 2010, the Board of Directors believes that the current financing is sufficient for conducting operations.

Consolidated cash and cash equivalents amounted to SEK 135.8m at December 31, 2010. For further information, see Note 3.

Cost forecast 2011
Because Orexo's product portfolio contains three new proprietary projects that are in the clinical phase, costs will increase during 2011. Given the normal 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: first from companies with a similar business concept and business model and, second, 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 competences. 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 drugs for the treatment of pain, opioid dependence, asthma, COPD, rhinitis and GERD. 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 programs
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. Since 2002, around 100 people have participated in the Group's incentive programs. For more detailed information, see Long-term Incentive Programs on page 24.

In 2009, the Annual General Meeting resolved to approve an employee stock-option program that would entitle staff to subscribe to a total of 470,000 Orexo shares.

Authorization from the Annual General Meeting

The 2010 Annual General Meeting authorized the Board, until the time of the 2011 Annual General Meeting and on one or more occasions, to make decisions concerning the issue of new shares against cash payment through offset or in kind, or otherwise with conditions to make corporate acquisitions, product acquisitions and collaboration agreements possible, and to satisfy undertakings for strategic agreements that the company has entered into. Such issues may be decided on with or without deviation from shareholders' pre-emption rights, although such issues may not mean that the company's registered share capital or the number of shares in the company increases by more than a total of 15 percent, or lead to the company's share capital exceeding the highest permitted share capital as stipulated in the Articles of Association adopted at any time. Of this authorization, a maximum of one third (i.e. an increase of 5 percent) may be used to satisfy commitments for agreements that the company has entered into against payment through offset or in kind, and a maximum of two thirds (i.e. an increase of 10 percent) may be used to make corporate acquisitions, product acquisitions and collaboration agreements possible. For further information, see the Corporate Governance Report on page 68.

Principles and guidelines for remuneration to senior executives

The Board proposes that the Annual General Meeting resolves 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 2012 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.

Motives

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 20 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 established share-based incentive programs intended to promote the company's long-term interests by motivating and rewarding the company's key personnel. For a description of the company's previous share-based incentive programs, refer to Note 15 in this Annual Report, and to the company's website, www.orexo.com. In addition to previous incentive programs, the company has recently introduced a further long-term incentive program that is described in more detail below.

Allocation

Performance shares can be issued within the framework of the performance-based, long-term incentive program ("the Share Program"), up to a maximum of 1,540,000 shares in Orexo. Each Performance Share shall entitle the holder to acquire one (1) share in Orexo against payment of a redemption amount set at 100 percent of the volume-weighted price for the Orexo share on the 10 trading days immediately prior to the allocation.

Performance Shares may be allocated to key personnel in Orexo. Performance Shares shall expire 10 years after the Annual General Meeting resolved to adopt the Share Program. Allocation of Performance Shares shall be decided by the Board of Directors and be made in three categories.

Category 1 includes the CEO of Orexo, who receives an allocation of up to 500,000 Performance Shares.

Category 2 includes senior executives, with an aggregate allocation of up to 750,000 Performance Shares in this category.

Category 3 includes other key personnel, with an aggregate allocation of up to 200,000 Performance Shares in this category. Furthermore, the Board shall have the option of allocating an additional 90,000 Performance Share to employees in any of the aforementioned categories who have made extraordinary contributions to the company. The allocation of Performance Shares shall take into account the performance of the employee, his/her standing within the company and the contributions he/she has made to the Orexo Group. Board members appointed by the Annual General Meeting shall not be eligible to receive Performance Shares.

Requirements for vesting

The right to acquire new shares through the exercise of Performance Shares accrue as each employee satisfies certain vesting criteria. Of the total number of Performance Shares allocated to a participant in the Share Program, 50 percent of the Performance Shares are vested based on time and internal operational criteria ("Time-vested Performance Shares") and 50 percent vested on the basis of share price development and

relative share performance ("Share Price-based Performance Shares").

(i) Time-vested Performance Shares
As specified above, Time-vested Performance Shares vest based on time and internal operational criteria. Internal operational criteria shall be set by the Board of Directors on an corporate basis at the time of allocating Performance Shares to participants in the Share Program and thereafter prior to each reporting period (defined below) and shall be linked to the results returned by Orexo and its subsidiaries (revenue, profitability, etc.), and to R & D and other operational criteria (achieved milestones, etc.) (the "Internal Operational Criteria"). It shall be possible to exercise up to a fifth of the total number of allocated Time-vested Performance Shares as of the date that falls one year after the date of allocation (the "anniversary date") provided that (i) 80 percent of the Internal Operational Criteria have been achieved during the immediately preceding 12 month period reported by Orexo prior to that anniversary date ("the reporting period"), and by a further fifth during each one of the four subsequent anniversary dates, provided that 80 percent of the relevant Internal Operational Criteria have been achieved during each of the reporting periods prior to these dates, and that (ii) at these times the holder is still employed within the Orexo Group or his/her employment has ended in circumstances where he/she is regarded as being a "Good Leaver" (defined below). Where an individual's employment has ended (irrespective of which party initiated such action) in circumstances that lead the holder not to be regarded as a Good Leaver, no Performance Shares held by that employee may be exercised, regardless of whether or not they have been vested, and all Performance Shares held by such an employee shall immediately become void upon the notification of termination of employment being issued. In the event of termination (irrespective of which party initiated such action) in circumstances that lead the holder to be regarded as a Good Leaver, the exercise period (except in respect of (b) and (c) below as per the definition of a Good Leaver) shall be 30 days from the date employment ended, after which all Performance Shares shall become void provided that they have not been exercised during this 30-day period.

A "Good Leaver" is a person whose employment has ended due to: (a) retirement at standard pensionable age with the consent of the Board of Directors, (b) death, (c) permanent illness or incapacity (does not extend to conditions caused by alcohol or drug dependence) or disability, (d) termination of employment (irrespective of which party initiated the action) for a reason other than those regarded by Orexo as For Cause (as defined below) or (e) in other instances where the Board of Directors decides that the employee should be regarded as a Good Leaver. "For Cause" essentially refer to breaches of the terms of employment, fraud, significant or serious disciplinary offences or other similar circumstances that entitle the company to terminate a person's employment without observing a period of notice.

(ii) Share Price-vested Performance Shares
An employee's exercise of Share Price-vested Performance Shares assumes (i) satisfaction of the performance criteria described below (the "Performance Criteria") and (ii) that the holder remains employed within the Orexo Group or that his/her employment has ended in such circumstances that the holder is regarded as a Good Leaver. Where an individual's employment has ended (irrespective of which party initiated such action) in circumstances that lead the holder not to be regarded as a Good Leaver, no Performance Shares held by that employee may be exercised, regardless of whether or not they have been vested, and all Performance Shares held by such an employee shall immediately become void upon the notification of termination of employment being issued. In the event of termination (irrespective of which party initiated such action) in circumstances that lead the holder to be regarded as a Good Leaver, the exercise period (except in respect of (b) and (c) above as per the definition of a Good Leaver) shall be 30 days from the date employment ended, after which all that employee's Performance Shares shall be void provided that they have not been exercised during this 30-day period.

Performance Criteria shall be assessed based on the quoted volume-weighted average price of the Orexo share on the NASDAQ OMX Stockholm Exchange during a period of twenty (20) trading days prior to each assessment (the "Share Price"). When calculating the increase in Share Price, a comparison shall be made with the volume-weighted average price of the Orexo share over the ten (10) trading days immediately prior to allocation.

Performance Criterion 1
For any vesting of Share Price-vested Performance Shares, the increase in the Share Price must correspond to the levels specified below. The increase in Share Price shall not be calculated for a period exceeding five years, which means that the Share Price increase must have been achieved during a consecutive five-year period.

Increase in Share Price	Vested percentage of Share Price-vested Performance Shares (contingent on satisfaction of Performance Criteria 2 below)
> 60 percent	33 percent
> 100 percent	66 percent
> 150 percent	100 percent

These categories correspond to an average annual return during a five-year period of around 10, 15 and 20 percent respectively.

Performance Criterion 2
In addition to the satisfaction of Performance Criterion 1, the performance of the Share Price must, in order to be earned, outperform that of the NASDAQ OMX Stockholm Biotechnology PI Index for a 90-day period immediately prior to the date when Performance Criterion 1 above is satisfied. Satisfaction of Performance Criterion 2 shall be assessed on a rolling basis each day that Performance Criterion 1 is satisfied, with the relevant

90-day period being the period immediately prior to each such determination.

The Board of Directors shall have the option of deciding to not regard Performance Shares as being vested if it has been demonstrated that Shares have been vested on the basis of clearly erroneous information.

Restrictions on the right to transfer Performance Shares

Performance Shares that have been issued do not constitute securities and may not be transferred to third parties. Performance Shares shall be issued free of charge, and the holders' income will be taxed corresponding to the difference between the market value of the Orexo shares at the time the Performance Shares are exercised and the exercise price of the Performance Shares. The Orexo Group shall be responsible for and pay any social security charges.

Hedging the Share Program

In order to ensure that the company can satisfy its undertakings to participants in the Share Program when exercising their Performance Shares, the Extraordinary General Meeting held on February 16, 2011 resolved to issue a maximum of 1,540,000 warrants for the subscription of new shares in wholly-owned subsidiary Pharmacall AB. These warrants shall be used by the company solely to cover its undertakings towards participants when they exercise their Performance Shares.

Motives

The reason for the introduction of the 2011/2021 Orexo Share Program and the rationale behind the deviation from shareholders' pre-emption rights permitting the issue of warrants is that the Board believes that it is important to be able to attract, stimulate and retain skilled employees within the Group and also to, provide current and future senior executives the opportunity to become part-owners in the company. The Board believes that this will strengthen interest in Orexo's operations and stimulate company loyalty for years to come. As the Share Program is regarded as an incentive for employees within the Orexo Group, it is seen as having a positive impact on the Group's future development and will therefore be to the benefit of shareholders.

Costs and value

The cost of the 2011/2021 Share Programs, which are reported in the statement of operations is based on accounting standard IFRS 2 and allocated over the vesting period. The Board has permitted a preliminary calculation of the theoretical value of the right to receive an allocation of Time-vested Performance Shares in Orexo through the satisfaction of the earning conditions described above. Time-vested Performance Shares are earned in stages, with one-fifth being earned annually. The calculation is based on the following assumptions: (i) a market price of SEK 40.9 per Orexo Share and (ii) the Board's assessment of future volatility in the company's share. Based on these assumptions, the value range has been calculated at SEK 15.30–18.0 (37.40–44.0 percent of SEK 40.90), depending on the expected period before vesting. The Board has permitted a preliminary calculation of the theoretical value of the right to receive an allocation of Share Price-based Performance Shares in Orexo through the satisfaction of the vesting criteria described above. The calculation is based on the following assumptions: (i) a market price of SEK 40.9, (ii) the Board's assessment of future volatility in the company's share, (iii) the correlation between the company's share and the NASDAQ OMX Stockholm Biotechnology PI Index and (iv) the volatility of the NASDAQ OMX Stockholm Biotechnology PI Index. Based on these assumptions, the value has been calculated as SEK 13.10 (32.0 percent of SEK 40.90).

In total, the 2011/2021 Share Program may result in a maximum cost of about SEK 20.7m, excluding social security charges. The cost of social security charges is estimated to be around SEK 6.7m, assuming a share price at the final allocation of SEK 70 and exercises based on satisfaction of the vesting criteria equivalent to 50 percent of maximum allocation. The maximum cost of the 2011/2021 Share Program has also been based on a historic staff turnover rate in the Group of 5 percent.

Other remunerations and terms of employment

The President is covered by a defined-contribution pension plan. The pension premiums paid by the company amount to 20 percent of the President's monthly salary, while premiums for other senior executives amount on average to around 20 percent of fixed annual salary.

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 (including salary paid during the notice period), which includes the pension, but not bonuses earned by the end of employment. There are no agreements on severance pay for other senior executives.

Divergence 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.

Guidelines and deviations from these were adopted at the Annual General Meeting 2010 and can be found in Note 27 on page 59.

Dividend

The Board does not intend to propose a dividend for the 2010 fiscal year.

Proposed disposition of earnings

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

Share premium reserve	606,538,929
Retained earnings	–247,493,909
Loss for the year	–118,632,255
	240,412,765

The Board proposes that earnings of SEK 240,412,765 be carried forward.

Financial Reports 2010

Consolidated financial statements of operations

(SEK thousands)

Group	NOTES	2010	2009	2008
Net revenues	6, 22	210,499	236,104	233,346
Cost of goods sold	23	–26,321	–23,650	–17,446
Gross profit		**184,178**	**212,454**	**215,900**
Selling expenses	7, 8, 9, 23, 27	–35,223	–39,261	–38,818
Administrative expenses	7, 8, 9, 23, 24, 27	–46,819	–46,308	–55,294
Research and development costs	7, 8, 9, 23, 27	–186,914	–224,216	–238,125
Other operating income	25	7,746	8,239	7,451
Other operating costs	23, 25	–4,741	–9,991	–3,611
Operating loss		**–81,773**	**–99,083**	**–112,497**
Financial income		1,456	4,868	9,268
Financial expenses		–8,942	–2,726	–266
Loss after financial items		**–89,259**	**–96,941**	**–103,495**
Income tax	28	13	–1,138	441
Loss for the year		**–89,246**	**–98,079**	**–103,054**
Loss for the year attributable to:				
Parent Company shareholders		–89,246	–98,079	–103,054
Non-controlling interests		–	–	–
Earnings per share during the year attributable to Parent Company's shareholders (expressed in SEK)				
– before dilution	30	–3.81	–4.32	–4.77
– after dilution	30	–3.81	–4.32	–4.77

The full loss for each year is attributable to the Parent Company's shareholders, there are no non-controlling interests.

Consolidated statement of comprehensive income

(SEK thousands)

Group	NOTES	2010	2009	2008
Net profit/loss for the period		**–89,246**	**–98,079**	**–103,054**
Other comprehensive income/loss				
Hedging of net investment	16	–	2,329	–
Exchange-rate differences	16	–3,524	–7,574	–
Other comprehensive loss for the period, net after tax		**–3,524**	**–5,245**	**–**
Total comprehensive loss for the period		**–92,770**	**–103,324**	**–103,054**
Total comprehensive loss attributable to:				
Parent Company shareholders		–92,770	–103,324	–103,054

The notes on pages 36–67 constitute an integral part of this Annual Report.

Consolidated balance sheets

(SEK thousands)

Group	NOTES	Dec 31, 2010	Dec 31, 2009	Dec 31, 2008
ASSETS				
Fixed assets				
Tangible fixed assets				
Equipment, renovation of the property of others, machinery and computers	7, 9	41,666	45,814	50,317
Intangible fixed assets				
Patent and intellectual property rights, acquired R & D and goodwill	8, 9	407,417	446,999	391,971
Total fixed assets		**449,083**	**492,813**	**442,288**
Current assets				
Inventories	12	7,965	8,440	13,982
Accounts receivable and other receivables	11, 13	119,845	60,667	57,535
Cash and cash equivalents	14	135,798	87,414	188,220
Total current assets		**263,608**	**156,521**	**259,737**
TOTAL ASSETS		**712,691**	**649,334**	**702,025**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity attributable to the Parent Company's shareholders				
Share capital	15	9,361	9,360	8,647
Other contributed capital	15, 17	1,106,798	1,094,453	1,012,964
Reserves	16	–8,769	–5,245	–
Accumulated deficit	15	–639,153	–549,907	–451,828
Total shareholders' equity		**468,237**	**548,661**	**569,783**
Long-term liabilities				
Other provisions	17	1,112	11,114	10,000
Borrowing	18	94,421	12,800	–
Deferred tax liability	28	8,911	9,791	415
Total long-term liabilities		**104,444**	**33,705**	**10,415**
Current liabilities				
Accounts payable and other liabilities	18, 19	140,010	66,968	121,827
Total liabilities		**244,454**	**100,673**	**132,242**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**712,691**	**649,334**	**702,025**

The notes on pages 36–67 constitute an integral part of this Annual Report.

Changes in consolidated shareholders' equity

(SEK thousands)

Group	NOTES	Share capital	Other contributed capital	Accumulated deficit	Reserves	Total	Total shareholders' equity
Opening balance at January 1, 2008		**8,647**	**1,011,380**	**–348,775**	**0**	**671,252**	**671,252**
Total comprehensive income							
Loss for the year				–103,054		–103,054	–103,054
Total comprehensive income				**–103,054**		**–103,054**	**–103,054**
Transactions with shareholders							
Employee stock options, value of employees' services			1,584			1,584	1,584
Total transactions with shareholders			**1,584**			**1,584**	**1,584**
Opening balance at January 1, 2009		**8,647**	**1,012,964**	**–451,829**	**0**	**569,783**	**569,783**
Total 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			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**
Total 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			2,297			2,297	2,297
New share issues	15	1	43			44	44
Convertible promissory notes – shareholders' equity portion			10,573			10,005	10,573
Convertible promissory notes – transaction costs, shareholders' equity portion			–568			–568	–568
Total transactions with shareholders		**1**	**12,345**			**12,346**	**12,346**
Closing balance at December 31, 2010	15	**9,361**	**1,106,798**	**–639,153**	**–8,769**	**468,237**	**468,237**

Consolidated cash flow statement

(SEK thousands)

Group	NOTES	2010	2009	2008
Cash flow from operating activities				
Operating loss		–81,773	–99,083	–112,497
Interest received		550	759	9,268
Interest paid		–8,942	–397	–266
Other financial items		906	–	–
Tax paid		–	–1,389	–
Adjustment for non-cash items	33	39,825	20,834	12,265
Cash flow from operating activities before change in operating capital		**–49,434**	**–79,276**	**–91,230**
Change in working capital				
Accounts receivable		–67,453	–2,963	–19,172
Other current receivables		8,275	6,143	7,463
Inventories		475	5,542	–688
Current liabilities		65,751	–64,487	1,894
Provisions		299	1,114	328
Long-term liabilities		–880	–	–85
Cash flow from operating activities		**–42,967**	**–133,927**	**–101,490**
Investment activities				
Acquisition of machinery and equipment		–3,438	–2,588	–1,671
Divestment of machinery and equipment		–	2	110
Acquisition of subsidiaries after deductions for acquired cash and cash equivalents		–	24,695	–327
Cash flow after investment activities		**–46,405**	**–111,818**	**–103,378**
Financing activities				
New share issue		44	90	–
Loans raised		111,150	16,000	–
Amortization of loans		–16,000	–	–
Cash flow after financing activities		**48,789**	**–95,728**	**–103,378**
Cash flow for the year				
Cash and cash equivalents at start of period		87,414	188,220	291,598
Exchange-rate differences in cash and cash equivalents		–405	–5,078	–
Change in cash and cash equivalents		48,789	–95,728	–103,378
Cash and cash equivalents at end of period	14	**135,798**	**87,414**	**188,220**

Parent Company income statements

(SEK thousands)

Parent Company	NOTES	2010	2009	2008
Net revenues	6, 22	112,951	208,183	207,757
Gross profit		**112,951**	**208,183**	**207,757**
Selling expenses	7, 8, 9, 23, 27	–16,533	–16,588	–19,041
Administrative expenses	7, 8, 9, 23, 24, 27	–61,605	–42,260	–52,085
Research and development costs	7, 8, 9, 23, 27	–147,046	–192,463	–197,689
Other operating income	25	4,136	3,574	4,514
Other operating costs	23, 25	–1,347	–6,203	–1,779
Operating loss		**–109,444**	**–45,757**	**–58,323**
Profit/loss from financial investments				
Interest income		506	230	3,733
Interest expense		–9,399	–2,543	–215
Other financial expenses		–295	–	–
Other financial income		–	6,269	–
Loss after financial items		**–118,632**	**–41,801**	**–54,805**
Income tax	28	–	–1,390	–
Loss for the year		**–118,632**	**–43,191**	**–54,805**

Parent Company statement of comprehensive income

(SEK thousands)

Parent Company	NOTES	2010	2009	2008
Net loss for the period		–118,632	–43,191	–54,805
Other comprehensive income for the period, net after tax		**–**	**–**	**–**
Total comprehensive loss for the period		**–118,632**	**–43,191**	**–54,805**
Total comprehensive income/loss attributable to:				
Parent Company shareholders		–118,632	–43,191	–54,805

Parent Company balance sheets

(SEK thousands)

Parent Company	NOTES	Dec 31, 2010	Dec 31, 2009	Dec 31, 2008
ASSETS				
Fixed assets				
Intangible fixed assets				
Patents and intellectual property rights	8, 9	218	363	509
Tangible fixed assets				
Equipment, renovation of the property of others, machinery and computers	7, 9	41,566	45,523	49,985
Financial fixed assets				
Shares in subsidiaries and joint ventures	10	604,763	606,414	524,169
Total fixed assets		**646,547**	**652,300**	**574,663**
Current assets				
Inventories	12	2,529	1,385	5,233
Current receivables				
Accounts receivable	13	46,554	64,531	63,812
Tax claims	13	2,046	728	2,536
Other receivables	13	527	2,759	641
Receivables from Group companies	13	14,338	–	26,938
Prepaid expenses and accrued income	13	70,521	9,439	11,854
Total current receivables		**133,986**	**77,457**	**105,781**
Cash and cash equivalents	14	101,400	12,790	29,608
Total current assets		**235,386**	**91,632**	**140,622**
TOTAL ASSETS		**884,462**	**743,932**	**715,285**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Restricted shareholders' equity				
Share capital	15	9,361	9,360	8,647
Statutory reserve	15	290,751	290,750	290,750
		300,112	**300,110**	**299,397**
Non-restricted shareholders' equity				
Share premium reserve	15, 17	606,539	594,523	514,099
Accumulated deficit	15	–247,493	–204,302	–149,497
Loss for the year	15	–118,632	–43,191	–54,805
		240,414	**347,030**	**309,797**
Total shareholders' equity		**540,526**	**647,140**	**609,194**
Long-term liabilities				
Other provisions	17	1,135	813	490
Long-term liabilities	18	94,421	12,800	–
Total long-term liabilities		**95,556**	**13,613**	**490**
Current liabilities				
Accounts payable	19	21,147	13,064	13,150
Other liabilities	18, 19	17,554	17,679	16,071
Liabilities to Group companies	19	123,842	27,405	–
Accrued expenses and deferred income	19	85,837	25,031	76,380
Total current liabilities		**248,380**	**83,179**	**105,601**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**884,462**	**743,932**	**715,285**
Pledged assets and contingent liabilities				
Pledged assets	20	44,000	16,000	–
Contingent liabilities	21	6,050	6,050	11,050

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, 2008		**8,647**	**290,750**	**515,033**	**–148,498**	**665,932**
Loss for the year					–54,805	–54,805
Total transactions recognized directly in shareholders' equity						0
Total recognized income and expenses					**–54,805**	**–54,805**
Employee stock options, value of employees' services				–933		–933
Group contributions paid					–1,000	–1,000
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				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				1,969		1,969
Subscription for shares through exercise of warrants	15	1		43		44
Convertible promissory notes – shareholders' equity portion	15			10,005		10,005
Closing shareholders' equity at December 31, 2010		**9,361**	**290,750**	**606,540**	**–366,125**	**540,526**

Parent Company cash flow statement

(SEK thousands)

Parent Company	NOTES	2010	2009	2008
Current activities				
Operating loss before interest expense and interest income		–109,444	–45,757	–58,323
Interest received		506	231	3,733
Interest paid		–9,399	–132	–215
Other financial items		–295	–169	–
Tax paid		–	–1,389	–
Adjustment for items not included in the cash flow	33	14,867	14,250	6,160
Cash flow from operating activities before change in working capital		**–103,765**	**–32,966**	**–48,645**
Accounts receivable		17,977	–719	–63,772
Other current receivables		–74,506	29,043	10,061
Inventories		–1,144	3,848	–871
Current liabilities		157,910	–26,070	29,496
Provisions		322	323	327
Cash flow from operating activities		**–3,206**	**–26,541**	**–73,404**
Investment activities				
Acquisition of machinery and equipment		–3,378	–2,588	–6,282
Divestment of machinery and equipment		–	2	110
Acquisition of shares in subsidiaries		–	–3,781	–327
Cash flow after investment activities		**–6,584**	**–32,908**	**–79,903**
Financing activities				
New share issue		44	90	–
Borrowings		111,150	16,000	–
Amortization of loans		–16,000	–	–
Cash flow after financing activities		**88,610**	**–16,818**	**–79,903**
Cash flow for the year				
Cash and cash equivalents at start of period		12,790	29,608	109,511
Change in cash and cash equivalents		88,610	–16,818	–79,903
Cash and cash equivalents at end of period	14	**101,400**	**12,790**	**29,608**

Notes

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

NOTE 1 GENERAL INFORMATION

Orexo AB (publ), the Parent Company and its subsidiaries (the Group), have one clear objective – to become a profitable international company that continually develops new drugs with significant medical and commercial potential. To achieve this, a pharmaceuticals company has been created that develops new, patented drugs by combining well-documented substances with innovative technologies, and – based on Orexo's cutting-edge knowledge of arachidonic acid and its significance to inflammatory diseases – new forms of treatment for pain and inflammatory respiratory diseases.

The Parent Company is 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 15, 2011.

The statement of operations and balance sheets will be presented to the Annual General Meeting on April 7, 2011 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.

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 re-valuations of financial assets which can be sold and financial assets and liabilities (including derivative instruments) measured at fair value in the income statement.

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 as a result of the Swedish Annual Accounts Act (ÅRL) and the Act on Safeguarding of Pension Obligations (Tryggandelagen) and, in some instances, for tax purposes.

Survival

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

2.1.1 Amendments to accounting policies and disclosures

No new or revised IFRS have come into effect that are expected to have any significant impact on the Group.

Preparing reports in compliance with IFRS requires the use of some key accounting estimates. In addition, management must carry out certain assessments when applying the company's accounting policies. Those areas that require a high degree of assessment, that are complex or areas where assumptions and estimates are of material significance to the consolidated financial statements are specified in Note 5.

(a) New and amended standards applied by the Group

The Group has applied the following new and amended IFRS as of January 1, 2010:

- IFRS 3 (Revised), "Business Combinations", and subsequent amendments to IAS 27, "Consolidated and Separate Financial Statements", IAS 28, "Investments in Associates" and IAS 31, "Interests in Joint Ventures", shall be applied prospectively to operational acquisitions where the time of acquisition first falls in the accounting year beginning on or after July 1 2009.
  The revised standard continues to prescribe that the acquisition method is applied to business combinations, but with a few important changes. For example, all payments for purchasing a business are recognized at fair value on the day of acquisition, including conditional purchase prices classified as liabilities and which are subsequently remeasured via the comprehensive income statement. Non-controlling interests in the acquired operation may for any acquisition be measured either at cost or at the proportional share of the acquired operation's net assets. All acquisition-related expenses are booked.
- IAS 27 (Revised) requires that the effects of all transactions involving Non-controlling interests be recognized in shareholders' equity, provided that the majority interest remains and that these transactions no longer give rise to goodwill or profits/losses. The standard also states that when a parent company loses its controlling interest, any remaining share is remeasured at fair value and a profit or loss is recognized in the income statement. IAS 27 (Revised) has had no impact on the current period, as no non-controlling interests are showing a negative value; there have been no transactions in which the company has lost majority interest whilst retaining a share, nor have there been any transactions involving minority shareholders.

(b) New and amended standards, and interpretations applied for the first time for the fiscal year commencing January 1, 2010 but that are not currently relevant to the Group (but which may affect the reporting of future transactions and business events)

The following standards and amendments of existing standards have been published and are mandatory for fiscal years commencing January 1, 2010 or later, but have not been applied in advance by the Group.

- IFRIC 17, "Distribution of Non-cash Assets to Owners"
- IFRIC 18, "Transfer of Assets from Customers"
- IFRIC 9 and IAS 39,"Embedded Derivatives"
- IFRIC 16, (Amendment) "Hedges of a Net Investment in a Foreign Operation"
- IAS 38, (Amendment), "Intangible Assets" (applies to fiscal years commencing January 1, 2010 or later)
  This amendment provides guidance in establishing the fair value of an intangible asset acquired in a business acquisition and which permits reporting of a group of assets as a single asset where the individual assets have similar utilization periods.
- IAS 1, (Amendment) "Presentation of Financial Statements"
- IAS 36, (Amendment) "Impairment of Assets"
  Applies to fiscal years commencing January 1, 2010 or later. This amendment stipulates that the largest cash-generating unit (or group of units) for which goodwill is to be distributed for the purposes of impairment requirements testing, is an operating segment in accordance with the definition given in point 5 of IFRS 8, "Operating Segments" (i.e. before the merger of segments with similar financial characteristics).
- IFRS 2, (Amendment) "Group Cash-settled and Share-based Payment Transactions"
- IFRS 5, (Amendment) "Non-current Assets Held for Sale and Discontinued Operations"

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

Group and Parent Company assessments in respect of the effect of these new standards and interpretations are stated below.

- IFRS 9, "Financial Instruments" (published in November 2009)

This standard is the first stage in the process of replacing IAS 39, "Financial Instruments; Recognition and Measurement" IFRS 9 introduces two new requirements for valuing and classifying financial assets and will probably affect the Group's recognition of financial assets. The standard is not applicable to fiscal years commencing before January 1 2013, but may be applied in advance. However, the standard has not yet been adopted by the EU.

- IAS 24, (Revised) "Related Party Disclosures"
- "Classification of Subscription Rights", (amendment of IAS 32)
- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments"
- IFRIC 14, (Amendment) "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

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 way 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. 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 Group acquisitions of subsidiaries. The purchase cost of the acquisition of a subsidiary consists of the fair value of transferred assets, liabilities and shares issued by the Group. The purchase cost also includes fair value of all assets or liabilities that are a consequence of an agreement in respect of conditional purchase cost. Acquisition-related costs are expenses as incurred. Identifiable acquired assets and liabilities taken over in a business acquisition are initially measured at fair value on the acquisition date. For each acquisition, the Group determines whether all Non-controlling interests in the acquired company are recognized at fair value or to the value of the acquired company's net assets proportional to the interest acquired.

The amount by which the purchase cost, any minority interest and fair value exceeds the fair value of the Group's share of identifiable acquired net assets on the date of acquisition will be recognized as goodwill. If the amount is less than the fair value of the assets of the acquired subsidiary, the difference is recognized directly in the comprehensive income report (see Note 2.6).

Intra-Group transactions and balance sheet items, as well as unrealized gains on transactions between Group companies, are eliminated. Unrealized losses are also eliminated unless the transaction serves as evidence that an impairment requirement exists for the transferred asset. The accounting policies for a subsidiary have been modified where appropriate in order to guarantee consistent application of the Group's principles.

(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 revenue and costs, assets and liabilities, as well as cash flow in the particular joint venture with corresponding items in its own consolidated accounting. 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 Prostrakan Ltd sells to the joint venture.

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 decision-making officer. This officer is the function that 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 incomes by selling products and license revenues comprising nonrecurring payments, remuneration for research collaboration, intermediate milestone payments and royalty income.

2.4 Translation of foreign currency

(a) Functional currency and reporting currency

Items included in the financial statements of the various units in the Group are measured in the currency used in the financial environment in which each company is primarily active (functional currency). SEK is used in the consolidated financial statements and is also the Parent Company's functional currency and reporting currency.

b) Transactions and balance sheet items

Transactions in foreign currencies are translated to functional currency in accordance with exchange rates applicable on the transaction date. Exchange rate gains and losses arising from the payment of such transactions and in the translation of monetary assets and liabilities in foreign currency at the closing day are recognized in profit and loss among "Other operating income" and "Other operating costs".

(c) Group companies

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

a) assets and liabilities for each of the balance sheets are restated at the exchange rate on the closing day;
b) income and expenses for each and every one 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), and
c) all Exchange-rate differences arising are recognized as a separate portion of shareholders' equity.

Exchange-rate differences which arise as a consequence of conversion of net investment in foreign operations and of borrowings and other currency instruments identified as hedgings of such investments are recognized in shareholders' equity in the consolidation. When a foreign operation is divested either wholly or in part, the Exchange-rate differences recognized in shareholders' equity are transferred to profit and 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 day.

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 value 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 instances where 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 costs".

Assets residual value and useful life are tested on every closing day 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 costs" in profit and 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 cost 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 they were 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 of an indication of long-term value downturn. 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 identify 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 the acquisition of operations. Ongoing R&D projects acquired through the acquisition of operations are recognized at cost as "Acquired R&D". Expenses for continuing research in acquired projects are booked as they arise. After the first recognition occasion, the assets are recognized using the cost method, which means 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.

(c) Patents and rights

Patents and rights are recognized at cost. Patent 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
Distribution rights (contracted)	2 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 long-term downturn in value, to identify any impairment requirement. Assets which 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 recognized at fair value in profit and 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 to the accrued 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 accrued 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 that this event (or these events) impact 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 estimate 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 the consolidated statement of operations.

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 the accrued 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 by 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 and 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 incurred event 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 accrued 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 accrued cost and any difference between the amount received (net after transaction costs) and the re-payment amount is recognized in profit and 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 are converted to shares and where the number of shares issued is not affected by changes in the fair value of the share.

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

After the date of acquisition, the liability portion of a compound financial instrument is measured at the accrued cost through the application of the effective interest method. The shareholders' 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 and loss, except when the tax refers to items that are recognized directly against shareholders' equity. In these cases, tax is also recognized in shareholders' equity.

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, 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 an acquisition of operations and which, on the date of the transaction, does neither affect the recognized earnings or 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 particular deferred tax receivable is released or the deferred tax liability is settled.

Deferred tax receivables are recognized to the degree that it is likely that future surplus 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 loss carry-forwards values were recognized in the balance sheet, as it is uncertain when it will be possible to use loss carry-forwards.

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-related benefits

The Group has share-related payment plans in the form of employee stock options, for which 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.

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 and 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 termination 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 termination. 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 all employees. The bonus system is based on achievement of company goals and is paid out in relation to annual salary. At the end of the fiscal year, these costs are calculated and charged in an amount equal to the actual bonus vested during the year. 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 sales within the Group. Revenue is recognized as follows:

Sale of goods

Revenue 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 revenue

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 over a certain period, or it may also constitute payment for the transfer of technology or know-how to the busi-

ness partner. In cases in which a lump sum payment covers more than one delivery (such as the transfer of rights such as technology transfer), 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 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.
- 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 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 and loss and amortization in the balance sheet. The interest expense is distributed across the leasing period so that each reporting period is charged with an amount that corresponds to a fixed rate of interest for the liability recognized for the specific period. The leased asset is written off 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 written off in its entirety during the leasing period or its useful life, whichever is the shorter. Depreciation is recognized in profit and 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 subsidiary and the Prostrakan AB joint venture company. The cost of sold services, including research collaboration, 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 hedging recognition in accordance with 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 these options being redeemed is recognized under "Subscription of shares through the exercising of warrants". No hedge options were redeemed during 2008, 2009 or 2010.

NOTE 3 FINANCIAL RISK MANAGEMENT

The Group's operations expose it to a number of financial risks. These risks can be split into operational risks and financial risks. The financial risks are described below, along with how 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 how 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. Orexo does not engage in hedging transactions for speculative purposes.

The President of the Group is responsible for producing, implementing and following up the Group's financial policy as agreed by the Board of Directors. The Group's Chief Financial Officer is responsible for ongoing financial administration and reports on a monthly basis to the Group President.

3.1 Market risk
Currency risks
The Group is exposed to foreign-exchange 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 operations in Sweden. Accordingly, most operating costs are in SEK. However, the company sells its products in countries other than Sweden and receives license revenue in currencies other than SEK.

Assets, liabilities, revenue and expenses in foreign currency give rise to currency exposure. A decline in SEK against other currencies raises Orexo's recognized assets, liabilities, revenue 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 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 revenue 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 costs are in SEK. During the 2010 fiscal year, sales in USD accounted for 14 percent (59) of net revenues, with revenues in EUR accounting for 67 percent (32) and revenues in GBP for 0(0). During the same period, 17 percent (22) of total operating costs were in foreign currency with 13 percent (27) in USD, 34 percent (32) in EUR and 53 percent (40) in GBP.

To limit the currency risk, 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 as far as possible. Currently, 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 2.9m and in earnings of about SEK 2.2m. The corresponding change in EUR entails a change in revenues of approximately SEK 14.6m and in earnings of about SEK 13.0m, and in GBP a change in revenues of approximately SEK 0 and in earnings of about SEK 2.6m.

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 comprise an insignificant part of the operations, this exposure is not hedged. The Group's shareholders' equity is affected by exchange-rate fluctuations when the assets and liabilities are translated to SEK. This exposure is not currently hedged.

Interest rate risk
Orexo's financial policy defines liquidity as the liquid funds 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 excess 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. Orexo does not currently have any investments in interest-bearing instruments.

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 in the purchase of securities with surplus liquidity, these 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 103.9m on December 30, 2010. The interest-bearing liability is in respect of the convertible loan implemented during the year. The loan has an fixed annual interest rate of 8 percent.

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 does 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 subsidiary Kibion's and in the joint venture company ProStrakan'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.

When a license agreement is concluded with another company, an extensive evaluation of the counterparty is always undertaken prior to the signing of an agreement.

Follow-up of accounts receivable takes place on a rolling basis, with checks performed on due customer invoices. Of total accounts receivable at December 31, 2010, the three largest customers accounted for 74 percent. No other single customer accounted for more than 1 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 does not 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 liquid funds within three banking days.

Cash flow forecasts are prepared each month. Executive management continuously monitors the forecasts for the Group's liquidity reserve to ensure that the Group has sufficient cash funds to meet the requirements of the business operations and to continuously maintain adequate scope in unutilized, contracted credit lines so that the Group does not exceed loan limits or contravene the covenants of any of the Group's credit lines. These forecasts include the Group's plans for debt restructuring, compliance with covenants, compliance with internal balance sheet-based earnings targets and, where applicable, supervisory and statutory requirements, for example, currency restrictions.

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 after the closing date.

At December 31, 2010	Less than 2 years	Between 2 and 5 years
Accounts payable	25,478	
Liabilities pertaining to financial leasing	-	
Accrued costs	78,153	
Borrowing	-	111,150

At December 31 2009	Less than 2 years	Between 2 and 5 years
Accounts payable	18,064	
Liabilities pertaining to financial leasing		
Accrued costs	15,459	
Borrowing	3,200	4,800

At December 31 2008	Less than 2 years	Between 2 and 5 years
Accounts payable	17,840	
Liabilities pertaining to financial leasing	492	
Accrued costs	66,846	

Orexo's objective in 2011 is primarily to ensure the strong performance of its pipeline programs and to increase royalty revenues from Abstral™ and Edluar™. These products are now generating sales in 18 EU countries, with Abstral generating sales in the US and Canada and Edluar sales in the US. Plans are in place to launch these products in other countries during 2011, including in Russia, which will instigate an interim milestone payment.

In addition, Orexo will also promote existing collaborations and sign new licensing and development agreements in markets where the company does not intend marketing its own products, giving the Group new revenue streams and thus reducing its liquidity risks.

The Group has a number of ongoing projects in different phases that are deemed to offer favorable commercial potential and for which there are major opportunities to sign foreign licensing agreements and receive interim milestone payments during the year.

In March 2010, the company directed an issue of convertible bonds of SEK 111m to Danish company Novo A/S.

Given the higher level of liquidity at the end of 2010, which was the result of a lower cost base working in combination with the convertible issue, as well as the major interim milestone payments and royalty payments during the first part of 2011, coupled with the credit extension of SEK 19m received in February 2010, the Board of Directors believes that the current financing is sufficient to conduct business operations over the next 12 months.

3.4 Capital risk

The Group's objective as far as the capital structure is concerned 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 maintaining an optimum capital structure in order 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, 2010, 2009 and 2008 is presented in the table below:

	2010	2009	2008
Shareholders' equity	468,237	548,661	569,783
Total assets	712,691	649,334	702,025
Equity/assets ratio	**66%**	**85%**	**82%**

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 implies that, the Parent Company must apply, insofar as possible, IFRS statements that have been adopted by the EU, within the framework of the Swedish Annual Accounts Act and the Swedish Safeguarding of Pension Obligations Act and taking into account the connection between accounting and tax. The recommendation specifies the exceptions and additions to be made in relation to IFRS.

Consequently, the Parent Company applies the principles presented in the consolidated accounting, Note 2, with the exceptions outlined

below. The principles are applied consistently to all periods presented, unless otherwise stated. The same principles as in the preceding year are 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 substantial 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. This means 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 the cost with deductions for any impairment. Dividends received are recognized as revenue when 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 "Result 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 how 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 valuation 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
The company applies recommendation UFR 2 of the Swedish Financial Reporting Council (Rådet för finansiell rapportering), Group and shareholders' contributions. Shareholders' contributions 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. This means that Group contributions that are granted or received for the purpose of reducing the Group's total tax are recognized directly against "Retained earnings" after deductions for the effect on current tax. Group contributions received and which may be compared to dividends are recognized as dividends from Group companies in profit and loss. Group contributions granted, which may be compared to a shareholders' contributions, are recognized with due consideration of the effect on current tax, in line with the principle for shareholders' contributions above.

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).

NOTE 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under 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 use value. The value in use is estimated by means of a discounted cash flow method based on future expected incoming and outgoing payments. Substantial 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, 2010, goodwill amounted to SEK 17,679m (17,987m).

(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 stages in the research and development process. Of the Group's acquired R&D projects, two have 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 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 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.

At December 31, 2010, acquired R&D amounted to SEK 388,487m (427,030m).

(c) royalties
Royalties may be impacted by external factors, including sales limitations set by authorities in the countries in which sales are made. This is something that 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 income, 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 licensing agreements that entail 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 revenue to Orexo and give Orexo the option of marketing products within the framework of the project in certain countries in conjunction with Boehringer Ingelheim. Supported by this, the company has judged the licensing agreement not to entail divestment of the asset, which is why it remains recognized in the Orexo 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 booked as they arise. Development costs that are booked are not recognized as an asset in subsequent periods. For 2010, these costs amounted to SEK 186,914m (224,216m).

Executive management believes that the development costs recognized for 2010 cannot in any part be recognized as an asset because it cannot be reliably determined that they fulfill the capitalization requirements. 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 has 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. Wherever lump-sum payments received are considered as remuneration for this exclusivity, they 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.

An intermediate 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 1,066.9m (990.7m) at December 31, 2010.

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 geographical areas.

	Group			Parent Company		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
Sales distributed geographically						
Sweden	11,803	89,686	106,328	41,644	118,423	140,973
UK	49,510	47,549	32,351	49,510	47,549	32,351
Other EU countries	75,421	42,248	38,739	351	9,056	–
East Asia	20,776	27,942	10,120	20,716	27,936	8,296
US	27,854	4,238	26,137	730	4,238	26,137
Other countries	25,135	24,441	19,671	–	981	–
Total	**210,499**	**236,104**	**233,346**	**112,951**	**208,183**	**207,757**

The company's three largest customers combined account for 65 percent of the company's sales, with 28 percent, 24 percent and 13 percent, respectively.

All assets and investments are located in Sweden.

NOTE 7 TANGIBLE FIXED ASSETS

Group	Equipment and machinery	Computers	Renovation of others' property	Art and non-depreciable equipment	Financial leasing	Total
At January 1, 2008						
Cost	24,117	3,891	36,129	438	1,894	66,469
Accumulated depreciation and impairment	–5,634	–2,114	–752	–	–179	–8,679
Carrying amount	**18,483**	**1,777**	**35,377**	**438**	**1,715**	**57,790**
Fiscal year 2008						
Opening value	18,483	1,777	35,377	438	1,715	57,790
Purchases	5,498	500	367	25	–	6,390
Sales	–5,663	–970	–117	–89	–	–6,839
Impairment	–	–	–	–	–	–
Depreciation	–4,659	–857	–1,918	–	–1,504	–8,938
Sales	743	1,133	39	–	–	1,915
Closing value	**14,402**	**1,583**	**33,748**	**374**	**211**	**50,318**
At December 31, 2008						
Cost	23,952	3,421	36,379	374	1,894	66,020
Accumulated depreciation and impairment	–9,550	–1,838	–2,631	–	–1,683	–15,702
Carrying amount	**14,402**	**1,583**	**33,748**	**374**	**211**	**50,318**
Fiscal year 2009						
Opening value	14,402	1,583	33,748	374	211	50,318
Purchases	2,476	92	–	20	–	2,588
Increase through acquisition of operations	356	43	–	–	–	399
Sales	–24	–67	–	–	–	–91
Impairment	–	–	–	–	–	–
Depreciation	–4,676	–760	–1,815	–	–211	–7,462
Sales	19	66	–	–	–	85
Exchange-rate differences	–21	–2	–	–	–	–23
Closing value	**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 value	12,532	955	31,933	394	–	45,814
Purchases	3,403	35	–	–	–	3,438
Increase through acquisition of operations	–	–	–	–	–	–
Sales	–1,322	–1,393	–205	–	–	–2,920
Impairment	–	–	–	–	–	–
Depreciation	–4,848	–858	–1,623	–	–	–7,329
Sales	1,182	1,391	99	–	–	2,672
Exchange-rate differences	–9	–	–	–	–	–9
Closing value	**10,938**	**130**	**30,204**	**394**	**–**	**41,666**
At December 31, 2010						
Cost at beginning of period	28,841	2,131	36,174	394	–	67,540
Accumulated depreciation and impairment	–17,903	–2,001	–5,970	–	–	–25,874
Carrying amount	**10,938**	**130**	**30,204**	**394**	**–**	**41,666**

Leasing expenses amounted to 514 (2,006) (2,538) for the leasing of equipment, machinery and computers are included in the statement of operations.

Financial leasing

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

	2010	2009	2008
Cost, capitalized financial leasing	1,894	1,894	1,894
Accumulated depreciation according to plan	–1,894	–1,894	–1,684
Carrying amount	**–**	**–**	**210**

NOTE 8 INTANGIBLE FIXED ASSETS

Group	Goodwill	Acquired R&D	Patents and rights	Distribution rights	Other	Total
At January 1, 2008						
Cost	16,030	373,582	11,767	2,707	654	404,740
Accumulated depreciation and impairment	–	–	–10,724	–564	–87	–11,375
Carrying amount	16,030	373,582	1,043	2,143	567	393,365
Fiscal year 2008						
Opening value	16,030	373,582	1,043	2,143	567	393,365
Purchases	–	326	–	–	75	401
Increase through acquisition of operations	–	–	–	–	–	–
Depreciation	–	–	–306	–1,356	–133	–1,795
Closing carrying amount	**16,030**	**373,908**	**737**	**787**	**509**	**391,971**
At December 31, 2008						
Cost	16,030	373,908	11,767	2,707	729	405,141
Accumulated depreciation and impairment	–	–	–11,030	–1,920	–220	–13,170
Carrying amount	**16,030**	**373,908**	**737**	**787**	**509**	**391,971**
Fiscal year 2009						
Opening value	16,030	373,908	737	787	509	391,971
Purchases	1,957	–	–	–	–	1,957
Increase through acquisition of operations	–	61,154	1,498	–	–	62,652
Depreciation	–	–	–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 at beginning of period	17,987	435,062	13,265	2,707	729	469,750
Accumulated depreciation 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 value	17,987	427,030	1,619	0	363	446,999
Purchases	–	–	–	–	–	–
Increase through acquisition of operations	–	–	–	–	–	–
Depreciation	–	–	–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 at beginning of period	17,987	435,062	13,265	2,707	729	469,750
Accumulated depreciation and impairment	–308	–46,575	–12,232	–2,707	–511	–62,333
Carrying amount	**17,679**	**388,487**	**1,033**	**0**	**218**	**407,417**

Goodwill at December 31, 2010

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 risk company, Prostrakan AB, has the Nordic sales rights for some of both companies' pharmaceuticals. The company is regarded as a cash-generating unit.

	2010	2009
Noster System	10,637	10,945
Prostrakan	7,042	7,042
	17,679	**17,987**

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 2011 is based on budget. Cash flows for the period 2012–2014 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 15 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 future cash flows for the period 2010–2015. These assessments were based on achieved results, budgets, forecasts and are grounded in an increase in sales of just over 30 percent during each of the next two years, after which the rate of growth is anticipated to fall to just over 20 percent in year three and 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).

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, 2010

Acquired research and development amounted to SEK 388,487m (427,030m) divided between SEK 338,707m (371,950m) attributable to the acquisition of Biolipox AB in 2007 and SEK 49,780m (55,080m) attributable to the acquisition of PharmaKodex Ltd in 2009.

When an acquired research project begins to generate sales revenue or royalties, planned amortization begins over the expected useful period. The acquired R&D projects have not yet begun to generate such revenue 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 does 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, the value of two of the acquired R&D projects have been written down to zero. OX641 has been closed down for portfolio-strategic reasons. OX914 has been closed down following a strategic review of the project portfolio and an assessment that the development time for the project was excessive in order for a positive value to be achievable.

The sensitivity of 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	2010	2009	2008
Opening costs			
Cost at beginning of year	9,308	9,308	10,931
Rights acquired during the year	–	–	75
Sales and scrapping	–	–	–1,698
Accumulated cost at year-end	9,308	9,308	9,308
Accumulated amortization according to plan			
Opening amortization according to plan	–8,945	–8,799	–10,365
Amortization for the year according to plan	–145	–146	–132
Sales and scrapping	–	–	1,698
Closing accumulated amortization according to plan	–9,090	–8,945	–8,799
Carrying amount	**218**	**363**	**509**

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

NOTE 9 DEPRECIATION/AMORTIZATION

	Group			Parent Company		
	2010	2009	2008	2010	2009	2008
Tangible fixed assets						
Sales	48	265	47	12	12	5
Administration	2,842	688	3,269	2,842	688	3,269
Research and development	4,439	6,508	5,622	4,293	6,350	3,741
Total tangible fixed assets	**7,329**	**7,461**	**8,938**	**7,147**	**7,050**	**7,015**
Intangible assets						
Sales	303	1,089	–	–	–	–
Administration	145	146	132	145	146	132
Research and development	25,987	2,142	1,664	–	–	–
Total intangible assets	**26,435**	**3,377**	**1,796**	**145**	**146**	**132**
Total depreciation/amortization	**33,764**	**10,838**	**10,734**	**7,292**	**7,196**	**7,147**

NOTE 10 SHARES IN SUBSIDIARIES AND JOINT VENTURES

Holding Dec 31, 2010	Corp.Reg.no.	Reg. office	Number of shares	Shareholding	Cost	Impairment	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	0	505,773
Orexo UK	6619806	UK	1	100%	0	0	0
Pharmakodex Ltd	05268159	UK	686,664	100%	82,245	1,651	80,594

Change in carrying amount

2008	Opening carrying amount	Acquisition	Capital contribution	Impairment	Closing carrying amount
Pharmacall AB	100	–	–	–	100
Kibion AB	–	–	–	–	–
Prostrakan AB	18,296	–	–	–	18,296
Biolipox AB	505,446	327	–	–	505,773
Orexo UK	–	–	–	–	–
Total	**523,842**	**327**	**–**	**–**	**524,169**

2009					
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**

NOTE 11 FINANCIAL INSTRUMENTS BY CATEGORY

31 December 2010	Assets measured at fair value in profit and loss	Loans and accounts receivables	Other financial liabilities	Total
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 in respect of 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**

31 December 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**

31 December 2008				
Assets in the balance sheet				
Accounts receivable and other receivables (excluding interim receivables)		28,795		28,795
Cash and cash equivalents		188,220		188,220
Current investments				
Total		**217,015**		**217,015**
Liabilities in the balance sheet				
Accounts payable and other liabilities (excluding non-financial liabilities)			84,686	84,686
Liabilities relating to financial leasing			492	492
Total			**85,178**	**85,178**

NOTE 12 INVENTORIES

	Group			Parent Company		
	2010	2009	2008	2010	2009	2008
Raw materials	4,067	4,589	8,368	2,529	1,385	5,233
Finished products	3,898	3,851	5,614	–	–	–
Total	**7,965**	**8,440**	**13,982**	**2,529**	**1,385**	**5,233**

Group
The cost of inventories expensed is included in the item "Cost of goods sold" and amounted to SEK 26,321 (23,650) (17,446). During the year, inventories were impaired in the amount of SEK 250.

Parent Company
The cost of inventories booked is included in the item "Cost of goods sold" and amounted to SEK 0 (0) (0).

NOTE 13 ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	Group			Parent Company		
	2010	2009	2008	2010	2009	2008
Accounts receivable	99,211	31,758	28,795	46,554	64,531	63,812
VAT receivable	6,458	9,068	10,857	163	–	–
Other receivables	5,433	9,067	4,935	16,748	3,487	30,115
Prepaid rents	4,922	4,835	5,808	4,918	4,811	5,808
Other interim receivables	3,822	5,939	7,140	65,603	4,628	6,046
Total	**119,846**	**60,667**	**57,535**	**133,986**	**77,457**	**105,781**

Group
Impairment losses on accounts receivable amounted to SEK 141 (2,127) (0). 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 69 (0) (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		
	2010	2009	2008	2010	2009	2008
SEK	12,612	14,002	9,808	34,047	52,541	55,607
USD	7,178	1,572	4,100	–	1,276	1,183
EUR	78,855	15,821	14,203	12,507	10,714	7,022
Other currencies	566	363	684	–	–	–
Total	**99,211**	**31,758**	**28,795**	**46,554**	**64,531**	**63,812**

Accounts receivable due
At December 31, 2010, accounts receivable amounting to SEK 10,908 (3,462) (7,745) 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		
	2010	2009	2008	2010	2009	2008
Less than 43 days	9,614	2,879	2,079	0	1,603	1,227
44 days and older	1,294	583	5,666	0	–	3,212
Total	**10,908**	**3,462**	**7,745**	**0**	**1,603**	**4,439**

Credit quality of financial assets
The credit quality of financial assets that have neither fallen due for payment or 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		
	2010	2009	2008	2010	2009	2008
Counterparties without external credit rating	99,211	31,758	28,795	46,554	64,531	63,812
Total accounts receivable without impairment requirement	**99,211**	**31,758**	**28,795**	**46,554**	**64,531**	**63,812**

NOTE 14 CASH AND CASH EQUIVALENTS

	Group			Parent Company		
	2010	2009	2008	2010	2009	2008
Cash and bank	135,798	87,414	188,220	101,400	12,790	29,608
Total	**135,798**	**87,414**	**188,220**	**101,400**	**12,790**	**29,608**

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

Credit quality of financial assets
The credit quality of financial assets that have neither become due for payment or 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		
	2010	2009	2008	2010	2009	2008
A1	135,798	87,414	188,220	101,400	12,790	29,608
Total bank balances and short-term bank deposits	**135,798**	**87,414**	**188,220**	**101,400**	**12,790**	**29,608**

NOTE 15 SHARE CAPITAL AND OTHER CAPITAL CONTRIBUTIONS

Shares outstanding

As of December 31, 2010, the number of share outstanding in the company was 23,403,752, of which all were common shares. All shares carry one voting right. The par 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 holds none of its own shares.

Shares outstanding on January 1 2008	**21,617,395**
Subscription for shares through exercise of employee stock options	–
Subscription for shares through exercise of warrants	–
Shares outstanding on December 31 2008	**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**

Authorization from the Annual General Meeting

At the Annual General Meeting on April 23, 2010, the Board received authorization to issue new shares against 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

Years	Transaction	Change in number of shares	Change in share capital (SEK)	Total number of shares	Total share capital (SEK)	Nominal 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

[1] New issue of preference shares of series P1 directed to the main shareholders in connection with their initial investment in the company, at a subscription price of SEK 4,530 per share pursuant to a resolution by an Extraordinary General Meeting of Shareholders held on April 11, 2002.

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

[3] New issue of 6,365 preference shares of series P1 and 2,877 ordinary shares in connection with the acquisition of CePeP against contribution in the form of shares in CePeP pursuant to a resolution by an Extraordinary General Meeting of Shareholders held on August 27, 2003.

[4] New issue of preference shares of series P2 to the Principal Shareholders against set off of claims under a credit facility agreement and to Catella Fokus pursuant to a resolution of the Board of Directors 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 of Shareholders 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 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.

Share-based remuneration

Orexo has introduced an incentive program consisting of employee stock options and warrants designed to motivate and reward through ownership, and as a result to promote 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 or a quarter of the number of allotted options on each of the first three or four 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, 2010, there were a total of 1,517,941 options outstanding, providing an entitlement to a new issue of 1,388,486 share in Orexo and the exchange of 179,455 options against shares in Orexo[1]. 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 tables below shows a summary of the changes in the number of options outstanding during the period January 1, 2010 to December 31, 2010, split across each category.

	Opening 112010	Change	Closing December 31, 2010	Redeemable
Options directed at employees				
Of which:				
Decided and allotted employee stock options	876,316		876,316	
Exercised		–2,500	–2,500	
Forfeited		–154,250	–154,250	
Total			**719,566**	**468,613**
Decided and allotted Board stock options	35,207		35,207	
Allotted May 2010		25,713	25,713	
Total			**60,920**	**12,845**
Decided and allotted warrants	10,000		10,000	
Total			**10,000**	**10,000**
Decided, unallotted employee stock options[3]	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	**1,469,523**	**–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**

The average exercise price during the year was SEK 0.87 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 decided on at the Annual General Meeting held in April 2009, but have not yet been allotted.

Average subscription price per category

Category	Outstanding, Jan 1, 2010	Additional	Allotted	Redeemed	Forfeited	Outstanding, Dec 31, 2010	Redeemable
Employee stock options[1], Orexo AB	52.5	–	–	18.1	55.2	52.1	53.7
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
Options, supplementary purchase price	0.4/500	–	–	–	0.4	–	–

[1] In calculating the average exercise price 470,000 options from the 2009/2019 program have not been included as they have not been allotted and no exercise price has been set.

In January – December 2010, 2,500 employee stock options from Orexo's options programs were exercised. Also in January – December 2010, 69,071 of Biolipox's employee share 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 does not mean that Orexo has issued more 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 have been allotted free of charge to Board members elected at the 2010 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 2009 fiscal year. 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 options 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 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 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

Forfeited options

During the year, the Board resolved to forfeit options and deregister warrants at the Swedish Companies Registration Office that provided entitlement to 154,250 shares, which reduces the dilution in conjunction with full exercise of all outstanding warrants by about 0.6 percentage points. The forfeited options refer to vested options to employees and Board members who terminated their employment and will thus be unable to exercise them. Also during 2010, 9,454 of Biolipox' 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, 2002–2010 – distribution by employee category

The total allotment within Orexo's employee options program for the years 2002–2010, including options allotted within Biolipox ahead of its acquisition – for subscription for a total of 1,462,715 shares is distributed as follows:

- Board members: 154,549 shares, for which subscription has been made for 14,592 shares.
- President/CEO: 190,050 shares, for which subscription has been made for 105,464 shares.
- Other senior executives: 157,500 shares, for which subscription has been made for 0 shares.
- Other employees: 960,616 shares, for which subscription has been made for 444,591 shares.

Allotment of warrants for the period 2002–2010, 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.
- Former 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 2010 amounted to SEK 3.3m (8.2m). Of these expenses, SEK 2.7m (4.0m) is attributable to administrative personnel, SEK 0.5m (3.4m) to research and development personnel and SEK 0.1m (0.8m) to sales-related personnel.

The costs 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 arises in conjunction with the exercise of the 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 been financially and, thus, largely for cash flow purposes 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, 2010[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, 2010	Subscription price (SEK)	Program runs until	Number of shares and voting rights[2]
Decided and allotted options									
Employee stock options 2002	38,750	–	–	–	–	38,750	9.2	Dec 31, 2012	
Employee stock options 2003	2,500	–	–	–	–	2,500	12.7	Dec 31, 2013	
Employee stock options 2004	73,250	–	–	–2,500	–	70,750	18.1	June 30,2014	
Employee stock options 2005:I	6,750	–	–	–	–	6,750	18.1	Dec 31, 2013	
Employee stock options 2005:II	33,250	–	–	–	–33,250	0	53.6	Sep 30, 2015	
Employee stock options 2005/2006[3]	43,100	–	–	–	–4,000	39,100	113	Dec 31, 2015	
Employee stock options 2006/2016[4]	68,425	–	–	–	–10,000	58,425	119	Dec 31, 2016	
Employee stock options 2007/2017	272,666	–	–	–	–52,000	220,666	44	Dec 31, 2017	
Employee stock options 2008/2018	37,500	–	–	–	–	37,500	56	Dec 31, 2018	
Board stock options 2008/2015	12,845	–	–	–	–	12,845	0.4	Dec 31, 2015	
Employee stock options 2008/2018	300,125	–	–	–	–55,000	245,125	51	Dec 31, 2018	
Board stock options 2009/2016	22,362	–	–	–	–	22,362	0.4	Dec 31, 2016	
Board stock options 2010/2017	0	25,713	–	–	–	25,713	0.4	Dec 31, 2017	
Subscription options	10,000	–	–	–	–	10,000	12.7	Dec 31, 2013	
Subtotal	**921,523**	**25,713**	**–**	**–2,500**	**–154,250**	**790,486**	**48.03**	**–**	
Decided, unallotted options									
Employee stock options 2009/2019	470,000	–	–	–	–	470,000	–	Dec 31, 2019	
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	**1,469,523**	**25,713**	**–**	**–2,500**	**–154,250**	**1,338,486**			
Options attributable to the acquisition of Biolipox									
Employee stock options BX OP I	0	–	–	–	–	0	0.25	Dec 31, 2010	Undiluted
Employee stock options BX OP II	0	–	–	–	–	0	0.25	Dec 31, 2010	Undiluted
Employee stock options BX OP III	13,528	–	–	–11,464	–	2,064	0.25	Dec 31, 2010	Undiluted
Employee stock options BX OP IV	2,063	–	–	–917	–	1,146	0.25	Dec 31, 2010	Undiluted
Employee stock options BX OP V	43,220	–	–	–34,621	–	8,599	0.25	Dec 31, 2014	Undiluted
Employee stock options BX OP VI	0	–	–	–	–	0	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	27,973	–	–	–4,356	–114	23,503	0.25	Dec 31, 2015	Undiluted
Employee stock options BX OP IX	50,203	–	–	–17,713	–9,340	23,150	0.25	Dec 31, 2016	Undiluted
Hedge options	80,323	–	–	–18,450	–	61,873	0.25	Dec 31, 2010	Undiluted
Subscription options in respect of additional purchase sum	926,000	–	–	–	–926,000	–	–	–	
Subtotal	**1,202,430**	**–**	**–**	**–87,521**	**–935,454**	**179,455**			
Total number of securities in share-based incentive programs	**2,671,953**	**25,713**	**–**	**–90,021**	**–1,089,704**	**1,517,941**	**–**	**–**	

[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 2009

	Opening Jan 1 2009	Change	Closing Dec 31 2009	Redeemable
Options directed at employees				
Of which:				
Decided 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**
Decided and allotted Board stock options	12,845		12,845	
Allotted May 2009		22,362	22,362	
Total			**35,207**	**–**
Decided and allotted warrants	15,250		15,250	
Due		–5,250	–5,250	
Total			**10,000**	**10,000**
Decided, but not allotted Stock options Opening balance decided at 2008 AGM	429,500		429,500	
Less allocation February 2009		–329,500	–329,500	
Less surrendered		–100,000	–100,000	
Decided 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
In January–December 2009, 6,084 employee stock options from Orexo's options programs were exercised. Also in January–December 2009, 131,065 of Biolipox' employee share 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 does not mean that Orexo has issued more 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's 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

Changes in number of outstanding options in 2008

Category	Outstanding, Jan 1, 2008	Additional	Allotted	Redeemed	Forfeited	Outstanding, Dec 31, 2009	Redeemable
Options directed at employees							
Decided and allotted employee stock options	373,525	–	412,500	–	–134,950	651,075	199,292
Decided and allotted Board stock options	–	–	16,388	–	–3,541	12,847	0
Decided and allotted warrants	15,250	–	–	–	–	15,250	15,250
Decided, unallotted employee stock options	372,000	470,000	–412,500	–	–	429,500	0
Hedge options	78,000	–	–	–	–	78,000	78,000
Total decided options	**838,775**	**470,000**	**16,388**	**0**	**–138,491**	**1,186,672**	**292,542**
Employee stock options taken over from Biolipox (no dilution)	399,167	–	–	–44,427	–19,889	334,851	228,504
Hedge options taken over from Biolipox (no dilution)	135,374	–	–	–5,000	–	130,374	130,374
Total options from Biolipox	**534,541**	**0**	**0**	**–49,427**	**–19,889**	**465,225**	**358,878**
Total options directed at employees	**1,373,316**	**470,000**	**16,388**	**–49,427**	**–158,380**	**1,651,897**	**651,420**
Other options							
Warrants constituting supplementary purchase consideration for the acquisition of Biolipox AB	926,000	–	–	–	–	926,000	926,000
Total outstanding options	**2,299,316**	**470,000**	**16,388**	**–49,427**	**–158,380**	**2,577,897**	**1,577,420**

Exercised during the year
During the year, no new shares have been subscribed through the exercising of warrants under the Orexo options program.

Allotment during the year
In February 2008, 2008 options were allotted that provide entitlement to subscribe for a total of 372,000 shares, distributed among 50,000 to the President/CEO, 85,000 shares to other senior executives and 237,000 shares to other employees. The lifetime of the options extends up to and including December 31 2017. 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 21, 2009. The market value, computed using the Black & Scholes method, totaled SEK 11.50 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 starting point.

- share price: SEK 44
- lifetime: four years
- exercise price on subscription: SEK 44
- risk-free rate of interest: 4.75 percent
- expected volatility: 25 percent
- estimated dividend: SEK 0

In August 2008, 40,500 options were alloted to employees free of charge, the distribution being 30,000 to other senior executives and 10,500 to other employees. The lifetime of the options extends 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 August 22, 2008.

The market value, computed using the Black & Scholes method, totaled SEK 15.38 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 starting point.

- share price: SEK 48.40
- lifetime: four years
- exercise price on subscription: SEK 56
- risk-free rate of interest: 4.49 percent
- expected volatility: 25 percent
- estimated dividend: SEK 0

During May 2008, 12,845 options we allocated from the Board share program to Board members and can be exercised up to and including December 31, 2015. Vesting takes the form of one-fourth after the publication of Orexo's interim report for Q1 and one-fourth after the publication of each interim report for Q2 to Q4 during the mandate period for the fiscal year during which the option holder is elected or reelected.

The market value, computed using the Black & Scholes method, totaled SEK 55.15 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 starting point.

- share price: SEK 59
- lifetime: three years
- exercise price on subscription: SEK 0.40
- risk-free rate of interest: 4.62 percent
- expected volatility: 25 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
Closing balance at December 31, 2009	**–5,245**	**–5,245**
Opening balance at January 1, 2010	**–5,245**	**–5,245**
Hedging of net investment	–	
Exchange-rate differences	–3,524	–3,524
Closing balance at December 31, 2010	**–8,769**	**–8,769**

NOTE 17 PROVISIONS

	Group			Parent Company		
	2010	2009	2008	2010	2009	2008
Supplementary purchase consideration, Inflazyme	–	10,301	9,510	–	–	–
Estimated costs, social security fees, employee stock options	1,112	813	490	1,135	813	490
Total	**1,112**	**11,114**	**10,000**	**1,135**	**813**	**490**

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 has previously been 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 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.

Provisions primarily refer to estimated costs for social security fees in respect of employee stock 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		
	2010	2009	2008	2010	2009	2008
Bank loan, long-term portion	–	12,800	–	–	12,800	–
Convertible promissory notes	94,421	–	–	94,421	–	–
Total	**94,421**	**12,800**	**–**	**94,421**	**12,800**	**–**

	Group			Parent Company		
	2010	2009	2008	2010	2009	2008
Bank loan, short-term portion	–	3,200	–	–	3,200	–
Convertible promissory notes	9,479	–	–	9,479	–	–
Total	**9,479**	**3,200**	**–**	**9,479**	**3,200**	**–**

The convertible issue that took place during the year was recognized in 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 as 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**

The fair value of the liability portion of the convertible promissory notes on as at December 31, 2010 amounted to SEK 103,900,000.

NOTE 19 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	Group			Parent Company		
	2010	2009	2008	2010	2009	2008
Accounts payable	25,478	18,064	17,840	21,147	13,064	13,150
VAT liability	225	4,131	5,630	–	4,131	5,614
Employee withholding tax	2,032	2,019	2,628	1,822	1,894	2,376
Deduction, social security fees	1,691	1,828	2,891	1,528	1,711	2,281
Deduction, special salary tax	3,612	3,573	7,018	3,089	3,055	4,906
Other current liabilities	11,562	9,370	1,385	134,957	6,886	893
Accrued salaries	5,910	1,000	6,814	5,629	384	6,144
Accrued vacation pay	7,121	8,438	6,395	6,648	7,778	5,714
Accrued social security fees	4,226	3,086	4,380	3,989	2,686	3,975
Other interim liabilities	78,153	15,459	66,846	69,571	14,185	60,548
Total	**140,010**	**66,968**	**121,827**	**248,380**	**55,774**	**105,601**

NOTE 20 PLEDGED ASSETS

	Group			Parent Company		
	2010	2009	2008	2010	2009	2008
Chattel mortgages for overdraft facility	44,000	16,000	–	44,000	16,000	–
Pledging of all shares in Kibion AB	12,380	–	–	–	–	–
Total	**56,380**	**16,000**	**–**	**44,000**	**16,000**	**–**

NOTE 21 CONTINGENT LIABILITIES

	Group			Parent Company		
	2010	2009	2008	2010	2009	2008
Capital adequacy guarantee, Pharmacall AB	–	–	–	1,000	1,000	1,000
Capital adequacy guarantee, Kibion AB	–	–	–	5,000	5,000	10,000
Guarantee, Swedish Customs	50	50	50	50	50	50
Supplementary purchase consideration, Noster System AB	–	–	7,200	–	–	–
Supplementary purchase consideration, Inflazyme	45,679	37,771	34,870	–	–	–
Total	**45,729**	**37,821**	**42,120**	**6,050**	**6,050**	**11,050**

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 has previously been recognized as 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 fiscal year, the Inflazyme project has been downgraded, which means that the full additional purchase consideration is now recognized as a contingent liability amounting to SEK 45.7m.

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 with durations until December 31, 2016.

Orexo acquired the UK pharmaceutical company PharmaKodex in February 2009. The acquisition included conditional payments based on license revenue from PharmaKodex' current programs and technologies as well as certain intermediate milestone payments that are not recognized as a liability.

The SEK 35m extension to the company's overdraft facility with Nordea obtained during the period brings the full overdraft to SEK 44m and pledging of all shares in Kibion AB.

NOTE 22 DISTRIBUTION OF REVENUE

	Group			Parent Company		
	2010	2009	2008	2010	2009	2008
Sales, products	52,110	51,497	38,352	–	–	–
Royalty	43,492	18,472	145	43,492	18,472	145
License revenue	81,144	119,538	123,122	7,557	119,538	123,122
Partner-financed R&D costs	33,834	46,388	71,727	61,902	70,173	84,490
Other	–81	209	–	–	–	–
Total	**210,499**	**236,104**	**233,346**	**112,951**	**208,183**	**207,757**

NOTE 23 COSTS BY TYPE OF COST

	Group			Parent Company		
	2010	2009	2008	2010	2009	2008
Raw materials and consumables	35,306	41,503	32,444	6,752	12,553	11,784
Other external costs	110,632	162,469	181,642	104,574	132,250	142,142
Personnel costs	120,315	128,619	128,475	106,261	105,518	109,522
Depreciation/amortization and impairment	33,764	10,838	10,734	8,944	7,196	7,147
Carrying amount	**300,017**	**343,429**	**353,295**	**226,531**	**257,517**	**270,595**

NOTE 24 AUDITORS' FEES

	Group			Parent Company		
	2010	2009	2008	2010	2009	2008
Audit assignment						
PWC	658	689	809	530	592	704
KPMG	–	–	288	–	–	–
Deloitte	–	12	–	–	–	–
Silver Levene	147	150	–	–	–	–
Non-auditing assignments						
PWC	420	1,007	410	420	1,007	410
Tax advice						
PWC	291	305	223	291	305	223
Deloitte	84	–	–	–	–	–
Other services						
PWC	260	451	678	254	451	652
Total	**1,860**	**2,614**	**2,365**	**1,495**	**2,355**	**1,989**

NOTE 25 EXCHANGE-RATE DIFFERENCES

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

	Group			Parent Company		
	2010	2009	2008	2010	2009	2008
Other operating revenues	7,746	6,026	7,098	4,136	2,822	4,400
Other operating costs	–4,741	–9,989	–3,495	–1,347	–6,203	–1,668
Total	**3,005**	**–3,963**	**3,603**	**2,789**	**–3,381**	**2,732**

NOTE 26 FINANCIAL REVENUES AND EXPENSES

	Group			Parent Company		
	2010	2009	2008	2010	2009	2008
Interest expense						
Bank loans	–196	–186	–	–196	–186	–
Convertible promissory note	–8,733	–	–	–8,733	–	–
Group	–	–	–	–456	–	–
Other	–14	–43	–266	–14	–29	–215
Interest income						
Bank	551	760	9,250	436	118	2,694
Group	–	–	–	70	113	1,021
Other	–	–	18	–	–	18
Financial expenses	–295	–169	–	–295	–169	–
Financial income						
Exchange rate gain, Inflazyne provision	1,201	–	–	–	–	–
Transactions, Pharmakodex acquisition	–	1,780	–	–	4,109	–
Total	**–7,486**	**2,142**	**9,002**	**–9,188**	**3,956**	**3,518**

NOTE 27 REMUNERATION TO EMPLOYEES

Average number of employees

Group	2010 Average number of employees	Of whom men	2009 Average number of employees	Of whom men	2008 Average number of employees	Of whom men
Sweden	101	36	118	40	122	43
UK	4	3	6	5	1	1
Total for Group	**105**	**39**	**124**	**45**	**123**	**44**

Parent Company	2010 Average number of employees	Of whom men	2009 Average number of employees	Of whom men	2008 Average number of employees	Of whom men
Sweden	92	32	110	39	114	42
Parent Company, total	**92**	**32**	**110**	**39**	**114**	**42**

	Group			Parent Company		
Costs and remuneration to all employees and Board	**2010**	**2009**	**2008**	**2010**	**2009**	**2008**
Salaries, remuneration and social security fees						
Salaries and other remuneration to the Board, President and executive management	22,648	15,233	15,209	21,335	13,967	14,162
Salaries and other remuneration to other employees	49,962	60,819	61,762	40,565	50,387	51,835
Pension cost for Board, President and executive management[1]	4,186	2,726	2,738	3,926	2,366	2,395
Pension cost for other employees[1]	9,955	11,778	12,480	8,805	10,307	13,999
Social security fees for Board, President and executive management[1]	7,728	5,447	5,595	7,252	4,962	4,591
Social security fees for other employees[2]	18,709	21,313	25,966	16,030	18,121	20,066
Other personnel costs	8,202	15,769	6,050	6,024	9,333	3,799
Total	**121,390**	**133,085**	**129,800**	**103,937**	**109,443**	**110,847**

[1] Pertains in its entirety to defined-contribution pension plan.
[2] Of which SEK 1,012 (448) (expense: 55) pertains to estimated costs for payroll overhead for employee stock options.

Remuneration principles
As a rule, fees paid to the Board, including the Board Chairman, are set by the shareholders at the Annual General Meeting. Certain remuneration is paid for work in Board committees.

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 that in addition to the President comprise five persons. The Remuneration committee held two (one) meetings during the year.

Guidelines approved by the 2010 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 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 not exceed 40 percent of fixed salary for the President and First Executive Vice President, and 20 percent of fixed salary for other senior executives. In addition, the Board shall have the option of making discretionary allotments of variable remuneration in the form of bonuses when the Board deems such action to be appropriate.

Long-term incentive program
Orexo has established 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 the First Executive Vice President are covered by a defined-contribution pension plan. Pension premiums paid by the company amount to 21percent of the President's and the First Executive Vice President's monthly salaries. Other senior executives are covered by defined-contribution pension plans. The premium levels are lower than the premium level for the Swedish ITP plan, and amount to an average of 23 percent of fixed annual salary.

The employment agreement with the President and the First Executive Vice 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 12 months. A monthly salary is to be paid during the notice period. The President and the First Executive Vice President are entitled to severance pay if the company terminates employment, and shall corresponding to twelve months salary, which includes the pension, but not the bonus earned on the termination of employment. There are no agreements on severance pay in place for senior executives.

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 2010
There have been deviations from the guidelines where the Board has decided to pay bonuses to senior executives.

In certain instances, these bonus payments exceed the maximum level set by the 2010 Annual General Meeting.

The reason for these bonus payments is the extraordinary efforts made by individuals that have resulted in Orexo entering into a collaboration and licensing agreement with Ortho-McNeil-Janssen Pharmaceuticals Inc.

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 2010 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	Actuarial remuneration	Other remuneration	Total remuneration
Board of Directors							
Håkan Åström, Chairman	283	–	–	–	279	–	562
Monica Caneman, Board member	92	–	–	–	90	–	182
Michael Shalmi, Board member	72	–	–	–	81	–	153
Raymond Hill, Board member	167	–	–	–	170	–	337
Staffan Lindstrand, Board member	92	–	–	–	–	–	92
Bengt Samuelsson, Board member	92	–	–	–	90	–	182
Kjell Strandberg, Board member	92	–	–	–	90	–	182
Peter Lindborg	150	–	–	–	162	–	312
Subtotal	**1,040**	**–**	**–**	**–**	**962**	**–**	**2,002**
President							
Torbjörn Bjerke, President and CEO	6,883	1,387	207	1,483	167	–	10,127
Other senior executives (4.7)	10,728	1,297	125	2,443	379	–	14,972
Total	**18,651**	**2,684**	**332**	**3,926**	**1,508**	**–**	**27,101**

For 2010, bonuses were paid to senior executives.

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

During 2010, Orexo booked severance pay for the departing President. The President continued to work for the company throughout 2010. The President remuneration above includes a severance payment of SEK 3,384,000 in basic salary and SEK 711,000 in pension cost. The severance pay will be paid out during 2011, although the company has booked this for 2010. Remuneration has also been booked for the departing CFO during the year.

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

The composition of the group has changed over the year, with the average number of people being 4.7.

The number of shares and options held by the President and senior executives is shown in the information regarding the Board on page 75 and Management on page 76. 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 accountants. None of the Board members, senior executives or accountants has directly or indirectly through associated companies or the immediate families been involved in business deals with Orexo on non-commercial terms.

Board members and senior executives

	2010 Number of the closing date, of whom men		2009 Number of the closing date, of whom men		2008 Number of the closing date, of whom men	
Group (inc. subsidiaries)						
Board members	11	91%	11	91%	9	78%
President and other senior executives	6	66%	6	66%	6	57%
Parent Company						
Board members	8	88%	8	88%	9	86%
President and other senior executives	6	66%	6	66%	6	67%

Sickness absence

	Parent Company		
	2010	2009	2008
	(%)	(%)	(%)
Total sickness absence, % of total ordinary working hours	2.1	2.3	2.2
of which long-term sickness absence	43.8	48.0	4.1
Sickness absence for men	3.3	3.2	0.8
Sickness absence for women	1.3	1.8	3.1
Sickness absence for employees aged – 29	1.1	3.8	1.4
Sickness absence for employees aged 30–49	2.6	2.5	2.8
Sickness absence for employees aged 50 and above	1.1	1.5	1.2

NOTE 28 INCOME TAX

	Group			Parent Company		
	2010	2009	2008	2010	2009	2008
Current tax for the year	–	–1,446	–	–	–1,390	–
Current tax attributable to previous years	–	–	–	–	–	–
Deferred tax	13	308	441	–	–	–
Total	**13**	**–1,138**	**441**	**0**	**–1,390**	**0**
Difference between the Group's tax expense and tax expenses based on the current tax rate						
Recognized pre-tax loss	–89,259	–96,941	–103,495	–118,632	–41,801	–54,805
Tax under current tax rate	23,149	25,495	28,979	31,200	10,994	15,345
Tax effect of Group contributions	–	–	–	–	–	–280
Tax effect of non-deductible costs	–3,600	–200	–362	–113	–179	–310
Tax effect of changed tax rate	–	–14,570	–	–	–7,384	–
Tax effect of deductible costs not charged to earnings	–	–	–	–	–	–
Tax effect of non-deductible revenue	150	7	4	150	6	2
Increase in unrecognized deferred tax	–19,699	–10,732	–28,621	–31,237	–3,437	–14,757
Decrease in deferred tax liability due to temporary differences	13	308	441	–	–	–
Non-deductible foreign tax	–	–1,446	–	–	–1,390	–
Tax on profit for the year according to the statement of operations	**13**	**–1,138**	**441**	**0**	**–1,390**	**0**

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

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 acquisition of Biolipox (2007) acquired R&D were netted against the tax-loss carry-forwards in Biolipox.

	Group			Parent Company		
	2010	2009	2008	2010	2009	2008
Deferred income tax						
Deferred tax assets						
– related to loss carry-forwards in Biolipox	94,752	94,752	94,752	–	–	–
– related to other loss carry-forwards	185,552	165,823	145,223	156,313	125,076	113,405
Loss carry-forwards not asset recognized	–280,274	–260,575	–239,975	–156,313	–125,076	–113,405
Deferred tax liability						
– to be paid after more than 12 months	–8,879	–9,717	–107	–	–	–
– to be paid within 12 months	–33	–74	–308	–	–	–
– to be paid after more than 12 months and related to temporary differences on acquired R&D	–94,752	–94,752	–94,752	–	–	–
Deferred income tax, net	**8,912**	**9,791**	**415**	**0**	**0**	**0**

Recognized deferred tax liabilities amounted to SEK 9,791 at the beginning of the year and SEK 8,912 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 carry-forwards 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 carry-forwards other than the netting described above. The loss carry-forwards in the Group amounted to SEK 1,066.9m (990.7m). There is no time limit restriction on when it can be applied.

Gross changes in respect of deferred tax are as follows:

	2010	2009	2008
Opening balance	9,791	415	877
Tax on amortization of intellectual property rights in the Group	–879	9,376	–462
Closing balance	8,912	9,791	415

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		
	2010	2009	2008
Earnings used for the calculation of loss per share before dilution	–89,246	–98,079	–103,054
Average number of shares before dilution	23,402,502	22,714,784	21,617,395
Loss per share (SEK per share)	–3.81	–4.32	–4.77
Options outstanding	1,517,941	1,925,523	1,683,172

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 2010. The Board will propose to the Annual General Meeting on April 7, 2011 that no divided be paid for the 2010 fiscal year.

NOTE 32 UNDERTAKINGS

(a) 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 and loss during the year is shown in Note 7.

Orexo concluded a new leasing contract, effective January 1, 2007. This contact 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		
	2010	2009	2008	2010	2009	2008
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	30,182	15,091	31,131	30,182	15,091	30,182
Falls due for payment later than five years	–	–	–	–	–	–
Total	**45,273**	**30,182**	**46,222**	**45,273**	**30,182**	**45,273**

NOTE 33 DISCLOSURES ON THE CASH FLOW STATEMENT

	Group			Parent Company		
	2010	2009	2008	2010	2009	2008
Adjustment for items not included in cash flow comprise the following:						
Depreciation/amortization and impairment	33,764	10,503	10,734	8,944	7,196	7,147
Employee stock options, value of employees' services	3,309	8,203	1,531	2,978	7,140	–987
Financial expenses, convertible promissory note	2,752	–	–	2,752	–	–
Other	–	2,128	–	193	–86	–
Total	**39,285**	**20,834**	**12,265**	**14,867**	**14,250**	**6,160**

Transactions not settled with cash

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

NOTE 34 RELATED PARTY TRANSACTIONS

Purchases and sales between Group companies

The following transactions took place between companies in the Group:	2010	2009	2008
Forward invoicing of costs, which is recognized in the Parent Company as net sales revenue			
Biolipox AB	35,581	34,192	38,423
Prostrakan AB	270	–	–
Pharmakodex Ltd	85	350	–
Kibion AB	3,622	1,424	3,200
Sale of services			
Orexo UK Ltd	3,716	2,964	1,551
Kibion AB	597	359	–
Total	**43,871**	**39,289**	**43,174**

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 in respect of receivables to related parties.

Liability to the Parent Company

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	2010
At start of year	–
Loan paid out during the year	111,150
Interest expense	6,529
At year-end	117,679

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

See Note 26. 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.

	2010	2009	2008
Assets			
Fixed assets	7,074	7,094	7,909
Current assets	7,101	8,142	8,828
	14,175	**15,236**	**16,737**
Liabilities			
Long-term liabilities	–	–	220
Current liabilities	1,904	2,072	1,948
	1,904	**2,072**	**2,168**
Net assets	**12,271**	**13,164**	**14,569**
Income	12,280	10,798	9,781
Costs	–13,174	–12,203	–11,870
Loss for the year	**–894**	**–1,405**	**–2,089**

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

NOTE 36 ACQUISITION OF OPERATIONS

Acquisition of operations 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' 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 (SEKm):	
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 (SEKm):	**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 (SEKm):	
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**

Acquisition of operations in 2008
On June 13, 2008, Orexo AB established the subsidiary, Orexo UK. The company is located in the UK and the purpose of the company is to pursue the Group's business development from this location. The acquisition price was SEK 0. The newly established company's costs for the period June 13 to December 31, 2009 were SEK 1.5m.

NOTE 37 EVENTS AFTER THE CLOSING DATE

An Extraordinary General Meeting held on February 16, 2011, resolved to adopt a performance-based long-term incentive program - 2011/2021. Within the framework of the share program, performance shares will be issued with an option to acquire a maximum of 1,540,000 share in Orexo. Each performance shall entitle the holder to acquire a share in Orexo against a payment of a redemption amount set at 100 percent of the volume-weighted average price for the Orexo share during the ten trading days immediately preceding allocation.

The shares will be allocated to senior executives in Orexo. The allocation of shares shall be decided by the Board and be made within three categories - President, senior management and key personnel.

The right to acquire new shares by exercising performance shares is contingent on certain conditions being satisfied. Of the total number of performance shares allocated to a participant in the share program, 50 percent will be earned on the basis of time and internal business goals, and 50 percent on the basis of share price development and relative share development.

The cost of the share program will be recognized in the income statement, based on accounting standard IFRS 2 and allocated across the earning period.

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 7, 2011.

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 15, 2011

Orexo AB (publ)

Håkan Åström
Chairman of the Board

Monica Caneman
Board Member

Michael Shalmi
Board Member

Bengt Samuelsson
Board Member

Raymond Hill
Board Member

Staffan Lindstrand
Board Member

Kjell Strandberg
Board Member

Anders Lundström
President

Peter Lindborg
Board Member

Our audit report was submitted on March 15, 2011

PricewaterhouseCoopers AB

Leonard Daun
Authorized Public Accountant

Audit Report

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

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of Orexo AB for 2010. The company's annual accounts and consolidated financial statements are included in the printed version of this document on pages 6-66. The Board of Directors and the President are responsible for the accounting records and the administration of the company, as well as for the application of the International Financial Reporting Standards (IFRS) as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated financial statements and the administration based on our audit.

We conducted our audit in accordance with generally accepted accounting standards in Sweden. These standards require that we plan and perform the audit to obtain high, but not absolute assurance that the annual accounts and the consolidated accounts are free from material misstatements. An audit involves examining, on a test basis, evidence supporting the amounts and disclosures contained in the financial statements. An audit also includes an assessment of the accounting policies applied and the application thereof by the Board of Directors and the President, an assessment of the critical estimates made by the Board of Directors and President in preparing the annual accounts, and an evaluation of the overall information contained in the annual accounts and consolidated accounts. As a basis for our statement on discharge from liability, we have examined significant decisions, measures and circumstances in the Company in order to evaluate whether or not any member of the Board of Directors or the President is liable for damages to the company. We also examined whether any Board member 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 our audit provides a reasonable basis for our statements below.

The annual accounts have been prepared in accordance with the Swedish Annual Accounts Act, and thus provide a fair and true view of the company's results and financial position in accordance with generally accepted accounting standards in Sweden. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the Swedish Annual Accounts Act and provide a fair and true view of the Group's results and financial position. The statutory Board of Directors' report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend that the Annual General Meeting adopt the income statements and balance sheets for the parent company and the Group, appropriate the profit of the Parent Company in accordance with the proposal in the Directors' Report and discharge the President and members of the Board from liability for the fiscal year.

Uppsala, March 15, 2011

PricewaterhouseCoopers AB

Leonard Daun
Authorized Public Accountant
Auditor-in-Charge

Definitions of key figures

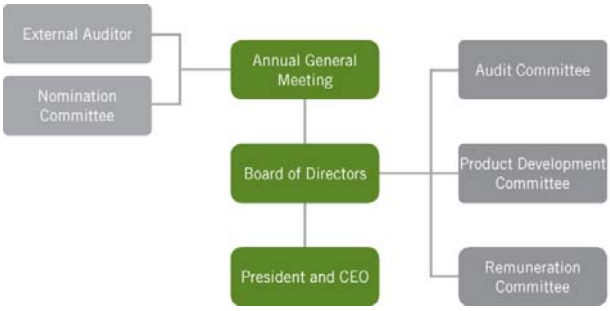
Key figures and certain other operational information and information per share have been defined as follows:

Number of shares after full dilution	– Total number of shares plus the maximum number of shares that can be subscribed through options outstanding.
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 revenues 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 revenues as a percentage of average total capital employed.
Current ratio	– Current assets as a percentage of current liabilities.
Gross margin	– Gross profit divided by net revenues.
Shareholders' equity per share, before dilution	– Shareholders' equity divided by total number of shares before dilution at 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.
Acid-test ratio	– Current assets, excluding inventories, as a percentage of current liabilities.
Capital turnover rate	– Net revenues divided by average operating capital.
Net interest-bearing liabilities	– Current and long-term interest-bearing liabilities, including pension liabilities, minus cash and cash equivalents.
Operating capital	– Total assets, less interest-free 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	– Interest-free current assets minus interest-free current liabilities.
Working capital, net/net revenue	– 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 after financial items expressed as a percentage of net revenue.

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 in Stockholm. Orexo applies the Swedish Corporate Governance Code[1] ("the Code") and hereby submits the 2010 Corporate Governance Report for the Parent Company and the Group. The follow-up in 2010 resulted in Orexo not having any deviations to report. The company's auditors reviewed this report.

Corporate governance at Orexo



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

Shareholders

Since 2005, Orexo's share has been listed on the NASDAQ OMX Stockholm. At year-end, the total number of shares amounted to 23,403,752 (23,401,252), distributed among 3,656 (3,681) shareholders. The ten largest shareholders held 58 (64) percent of the outstanding shares, corporate management 3 (3) percent and other shareholders 39 (33) percent. As at December 30 2010, two shareholders (HealthCap, 24.1 percent and Novo A/S, 16.6 percent) held shares representing 10 percent or more of the company. Non-Swedish shareholders accounted for approximately 31 (28) percent of the total number of shares. Institutions hold the majority of shares. At year-end, 78 (79) percent of shares were held by legal entities, and 22 (21) percent by private individuals.

Articles of Association

The Articles of Association are adopted by the Annual General Meeting and outline a number of mandatory tasks of a fundamental nature to the company. Notification of the convening of the Annual General Meeting is issued through an advert being placed in *Post- och Inrikes Tidningar* (Official Swedish Gazette) and on the company's website. Confirmation that the Annual General Meeting has been convened shall be announced in the *Svenska Dagbladet* newspaper.

[1] The Swedish Code of Corporate Governance is available from the Swedish Corporate Governance Board website http://www.corporategovernanceboard.se/media/45322/svenskkodbolagsstyrn_2010_eng_korrigerad20110321.pdf.

The complete Articles of Association are available from the Orexo website, www.orexo.com. 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. 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.

General Meeting of Shareholders

Orexo's highest decision-making body is the General Meeting, at which every shareholder has the right to participate and address matters for discussion. One share entitles the holder to a vote at the Annual General Meeting and any Extraordinary General Meetings, and there are no limits as to how many votes each shareholder can cast at an Annual General Meeting/General 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.

Extraordinary General Meeting 2010

The 2010 Extraordinary General Meeting was held on Wednesday, March 31, 2010 in Stockholm. The Extraordinary General Meeting decided to approve the Board's decision of March 14, 2010 to adopt a convertible loan of no more than SEK 111,150,000 by issuing convertible debt instruments to Novo A/S.

As a result of the convertible issue, the Extraordinary General Meeting resolved to elect Michael Shalmi from Novo A/S as a new Board member instead of Johan Christenson, who was dismissed, for the period up to the end of the next Annual General Meeting.

Furthermore, the Extraordinary General Meeting also decided that the election and dismissal should come into effect once Novo

A/S's acquisition of shares total 10.7 percent of the shares and votes in Orexo has been completed.

Complete information about the 2010 Extraordinary General Meeting can be found on the Orexo website www.orexo.com.

Annual General Meeting 2010

The 2010 Annual General Meeting was held on Thursday April 21, 2010 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.

The Annual General Meeting re-elected Monica Caneman, Michael Shalmi, Raymond Hill, Staffan Lindstrand, Bengt Samuelsson, Peter Lindborg and Kjell Strandberg as ordinary Board members, and Håkan Åström as Chairman of the Board for the period until the end of the next Annual General Meeting.

The Annual General Meeting granted Board members and the President discharge of liability for the 2010 fiscal year.

The Annual General Meeting decided that fees for Board members should amount to SEK 2,150,000, with SEK 500,000 SEK paid to the Chairman of the Board, SEK 300,000 each to Raymond Hill and Peter Lindborg, SEK 150,000 each to other Board members not employed in the company and a total of SEK 300,000 distributed equally between the members of the Remuneration, Product Development and Audit Committees for their work in these bodies. The Annual General Meeting 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 "hare in Orexo against the payment of a redemption amount set at the quotient value of the Orexo share (SEK 400,000). 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, 2017. To ensure that the company can satisfy its undertaking to Board shareholders on the exercise of Board Shares, the Annual General Meeting has resolved to issue no more than 30,000 warrants to wholly-owned subsidiary Pharmacall AB for any new share issue, equivalent to a maximum of around 0.12 percent of shares in Orexo at full dilution. The reason 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 the 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 1.34 million.

The Annual General Meeting approved the Board's motion concerning principles and guidelines for remuneration and other terms of employment for executive management.

Furthermore, the Annual General Meeting also approved proposed instructions for the Nomination Committee.

The Annual General Meeting also authorized the Board to decide on the issue of new shares.

Complete information about the 2010 Annual General Meeting can be found on the Orexo website www.orexo.com.

Extraordinary General Meeting 2011

An Extraordinary General Meeting 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 which can be found on the Orexo website www.orexo.com.

Annual General Meeting 2011

The Annual General Meeting of Orexo will be held on Wednesday, April 7, 2011, at 3pm At the IVA Conference Center, Grev Turegatan 16 in Stockholm, Sweden.

Nomination Committee

The Nomination Committee represents the company's shareholders. It has the task of creating the best possible basis for the General Meeting's resolutions and submitting proposals for resolutions regarding the appointment of the Board and auditors, and their remuneration. The 2010 Annual General Meeting resolved that the company will have a Nomination Committee comprising representatives from each of the largest shareholders in terms of votes and the Chairman of the Board. The composition of the Nomination Committee was announced on the Orexo website and in a press release on October 22 2010, and is based on ownership as of the last banking day in August 2010. The Committee held two (three) meetings during the year.

Nomination Committee for the 2011 Annual General Meeting

Name	Represents
Björn Odlander	HealthCap, and Chairman of the Nomination Committee
Ulrik Spork	Novo A/S
Ulrica Slåne	AP3
Håkan Åström	Chairman of the Board of Directors, Orexo

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

Board of Directors

At year-end, Orexo's Board of Directors consisted of Chairman Håkan Åström, and Board members Monica Caneman, Raymond G. Hill, Peter Lindborg, Staffan Lindstrand, Michael Shalmi, Kjell Strandberg and Bengt Samuelsson. For a more detailed description of the Board members, refer to page 75. The Board has adopted a formal work plan that regulates the distribution of duties within the Board and between the Board and the

company's President, the Board's meetings, the matters to be addressed and how reporting and information dissemination shall be managed within and to the Board. The Board has appointed an Audit Committee, a Remuneration Committee and a Product Development Committee.

Board activities

Every year, the Board establishes a formal work plan in writing that sets out the Board's responsibilities and regulates the internal distribution of work between the Board and its members, the delegation of authority within the Board, the Board meeting schedule, convening notices, agendas and minutes for Board meetings and the Board's work on accounting and auditing issues.

During the year, the Board held 12 (13) meetings, of which four (six) were telephone conferences or meetings by circulation. The Board has mainly addressed and resolved on issues concerning the company's strategic direction, the status of projects, research collaboration, licensing of projects, the follow-up of financial performance, investment matters, external reporting and budget planning and follow-up. 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	Product Development Committee Attendance
Håkan Åström	Board Chairman	■	2003	12/12	2/2	5/5	–
Monica Caneman	Board member	■	2004	10/12	–	5/5	–
Michael Shalmi*	Board member	■	2010	8/8	–	–	2/2
Raymond G. Hill	Board member	■	2008	12/12	2/2	–	2/2
Peter Lindborg	Board member	■	2009	12/12	–	–	1/2
Staffan Lindstrand	Board member	■	2002	9/12	2/2	5/5	–
Bengt Samuelsson	Board member	■	2008	11/12	–	–	2/2
Kjell Sandin	Board member	■	2003	12/12	–	–	2/2

* Board member since Annual General Meeting 2010
■ 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 is 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 his/her audit, and assist in the preparation of proposals to the Annual 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, Monica Caneman and Staffan Lindstrand.

Product Development Committee

The Product Development Committee's task is to assist in the development of criteria for prioritization between new product ideas for Orexo's development portfolio. Matters are addressed by the Committee and the Board makes resolutions on the basis of the proposals produced by the Committee. The Committee should meet as often as required. The Committee currently comprises Raymond Hill, Michael Shalmi, Bengt Samuelsson, Peter

Lindborg and Kjell Strandberg. During the year, the Product Development Committee was convened on two (zero) occasions.

Remuneration Committee

The Remuneration Committee meets as often as required and 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 incentive programs for the President and the managers who report directly to him, as well as remuneration issues based on principle. The aforementioned issues are addressed by the Committee and the Board makes resolutions on the basis of the proposals produced. The Committee should comprise the requisite knowledge and expertise to deal with issues related to the remuneration of senior executives. The Remuneration Committee currently comprises Håkan Åström, Michael Shalmi and Raymond Hill. During the year, the Remuneration Committee was convened on two (one) occasions.

Evaluation of the Board's work

The work of the Board, like 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 Group management

The President leads the work of the Group management team and makes decisions in consultation with the rest of the management. At the end of 2010, Group management consisted of six people. The Group management team holds regular meetings under the supervision of the President.

Auditors

The 2008 Annual General Meeting resolved to re-elect PricewaterhouseCoopers AB as the company's auditor, with Leonard Daun as Auditor in Charge for the period until the end of the 2012 Annual General Meeting. Leonard Daun is also the auditor for Starbreeze AB, Coeli AB, European Travel Interactive AB, Isconova AB and Eurocine Vaccines AB. He holds no shares in Orexo.

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

The Board of Directors' report on internal control and risk management regarding financial reporting can be found on pages 73–74.

Auditor's statement concerning the Corporate Governance Report

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

Task and scope of responsibility
We have inspected the Corporate Governance Report for 2010 on pages 67–71 and 73–74. The Board of Directors is responsible for the Corporate Governance Report and ensuring that it is prepared in accordance with the Swedish Annual Accounts Act. Our responsibility is to express an opinion on the Corporate Governance Report on the basis of our audit.

Scope and direction of inspection
The inspection has been carried out in accordance with the RevU 16 Fars standard, Auditor's inspection of the Corporate Governance Report. This means that we have planned and conducted the audit to obtain high, but not absolute assurance that the Corporate Governance Report is free from material misstatements. An audit includes inspecting a selection of sources of information in the Corporate Governance Report. We believe that our audit provides a reasonable basis for our statement below.

Statement
We believe that a Corporate Governance Report has been prepared and is consistent with the Annual Report and the Consolidated Accounts.

Uppsala, March 15, 2011

Leonard Daun
Authorized Public Accountant

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

Internal governance, control and risk management concerning financial reporting are crucial to Orexo achieving 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 Board's work plan and instructions for the President, and the accounting and reporting instructions.

In addition to this, 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 direct 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 management group, Board and Audit Committee.

Control activities

In light of the risks identified in risk layout, and the continuous monitoring of the way in which financial information is managed, Orexo has developed control activities in a way that provides good internal control of all aspects of financial reporting. A number of governing documents and procedures have been applied throughout the year in order to manage reporting and accounting. Standard procedures, attestation systems, financial handbooks and risk layouts are examples of such steering documents.

An additional level of control in the auditing 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 have, in some instances, 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 Nordic Stockholm and the supervisory authorities impose on the scope and accuracy of information, Orexo also employs internal information and communication functions that are designed to ensure that correct financial and other corporate information is communicated to employees and other stakeholders.

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, reporting down to project level. The Board of Directors and the Audit Committee review the Annual Report and interim reports prior to publication. The Audit Committee discusses special accounting principles, risks and other issued 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 of the company, has found no basis for establishing such a separate auditing function.

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 Annual 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.)

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, Ferrosan Holding AS and Pled Pharma AB, and member of the Board of Rhenman&Partners Asset Management AB. Håkan Åström has more than 30 years' experience of the pharmaceuticals industry since graduating from the Stockholm School of Economics. He has been President of a number of companies, including Travenol AB (Baxter Inc.), Astra Pharmaceuticals Ltd and Kabi Pharmacia AB. In his most recent operational position, he was Senior Vice President of Pharmacia Corporation, in charge of the group's strategy and communication, as well as President of Pharmacia AB. He was Chairman of the Board of Swedish Orphan Biovitrum AB 2004–2010 and Board member of Karolinska Institute 2004–2010.

Shares and options[1]: 48,842 shares and stock options entitling to 20,587 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 and Chairman of the Council of Trustees of the British Pharmacological Society and Advisory Member of the Academy of Medical Sciences. Dr. Hill is a non-Executive Director of Swiss companies Addex and Covagen. He has worked in the pharmaceuticals industry for 25 years, mostly in basic drug discovery research, initially for Parke Davis, then Smith Kline & French and then Merck until his retirement on April 30, 2008. Between 1990 and 2002, he worked as Executive Director of Pharmacology at the Neuroscience Research Centre, followed by a position as Executive Director, Licensing and External Research, Europe for Merck.

Shares and options: Stock options entitling to 11,570 shares.

3. Staffan Lindstrand (born 1962)

Board member since 2002

M.Sc. in Engineering. Partner of HealthCap and member of the Boards of HealthCap AB, Aerocrine AB, PulmonX Inc. and Technolas Perfect Vision GmbH. Staffan Lindstrand has worked at HealthCap since 1997, joinging the company after 10 years in investment banking.

Shares and options: 963 shares 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.
Member of the Boards of Cardoz AB, LTB4 Sweden and Nicox SA.

Shares and options: 2,492 shares indirectly and stock options entitling to 65,484 shares.

5. Michael Shalmi (born 1965)

Board member since 2010

M.D., MBA. Michael is a Senior Partner in Novo Growth Equity within Novo A/S. Before joining Novo A/S, he spent 15 years in a number of different international senior positions in Novo Nordisk.

Shares and options: Michael holds no shares in Orexo.

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 entitling to 13,864 shares.

7. Monica Caneman (born 1954)

Board member since 2004

MSc Bus. Adm. Chairman of the Boards of Arion Bank hf, the Fourth Swedish National Pension Fund, Frösunda LSS AB, Linkmed AB and SOS International AS. Member of the Board of Electronic Transaction Group Nordic AB, Intermail AS, Investment AB Öresund, Poolia AB, SAS AB, Schibsted ASA, SPP AB, Svenska Dagbladet AB, and MySafety AB. Monica Caneman has worked at Skandinaviska Enskilda Banken for 25 years, where she has held various senior management positions, including Senior Vice President and President.

Shares and options: 19,000 shares and stock options entitling to 17,864 shares.

8. Peter Lindborg (born 1957)

Board member since 2009

Senior Vice President of Biogen Idec, at the company's international headquarters in Zug, Switzerland.
Peter Lindborg has worked in the pharmaceuticals industry since graduating with a degree in Business Administration from Stockholm University. For the past 19 years, he has been based outside Sweden, holding a variety of positions within Senior International Management, including Global Brand Director at Merck&Co, Inc. (USA), Business Director at Biogen International (Paris, France), where he played a leading role in the development of the company's business operations outside the US, Senior Director - Japan & Asia Pacific at Biogen Inc (Cambridge, MA, USA) and Managing Director Australia & New Zealand at Biogen Idec (Sydney, Australia). Peter also has experience from Merck Sharp & Dohme, Roussel Nordiska AB and KABI Pharmacia.

Shares and options: Stock options entitling to 8,191 shares.

[1] Whether options provide entitlement to shares in accordance with this section "Board and Management" is, where appropriate, conditional on options being earned in accordance with the terms and conditions for those options.

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. Extensive experience of pharmaceutical development. Previously the President of NeoPharma Production AB and 10 years' experience of working at the Swedish Medical Products Agency.
Shares and options: 495,250 shares and employee stock options entitling to 60,000 shares.

2. Anders Pettersson (born 1959)

Head of Clinical Research & Development
M.D/Ph.D. with specialist training in clinical pharmacology. Founder. Board member 1995–2001. Employed with the company 2001–2006 and since 2009.
Shares and options: 60,150 shares.

3. Åsa Holmgren (born 1965)

Head of Regulatory Affairs
M.Sc. Pharm.
Employed since 2008.
Åsa has a broad background from several major pharmaceutical companies with more than 20 years experience in drug development and mainly international, strategic assignments within Regulatory Affairs. She most recently served as Senior Global Regulatory Affairs Director at AstraZeneca and has extensive experience from interactions with authorities in Europe, USA and Japan.
Shares and options: Employee stock options entitling to 7,500 shares.

4. Anders Lundström (born 1962)

President and Chief Executive Officer
M.Sc. Pharm.
Employed since 2011.
Anders Lundström has more than 20 years' experience of the pharmaceuticals industry, spending the last five years working in the US. Anders has a solid experience in sales and marketing gained from time with Biogen Idec, AstraZeneca, Janssen-Cilag and Bristol-Myers Squibb. He has held a number of executive positions, most recently as Head of Biogen Idec Hemophilia Inc. in the US.
Shares and options: Employee stock options entitling to 500,000 shares.

5. Robin Wright (born 1964)

Head of Finance and Strategy and Business Development
Auditor
Employed since 2008.
Previously Head of Corporate Advisory Services at BioScience Managers. Extensive experience of international corporate finance and business development within the pharmaceuticals industry.
Shares and options: Employee stock options entitling to 175,000 shares.

6. Gunilla Ekström (born 1958)

Head if Preclinical Research & Development/Project and Portfolio Management
M.D. PhD at Karolinska Institute.
Employed since 2008.
Gunilla has more than 20 years' experience of drug development and previously worked as Global Product Director at AstraZeneca, with responsibility for the company's global pain projects portfolio. She has been a member of the Therapeutic Area Neuroscience management group at AstraZeneca.
Shares and options: Employee stock options entitling to 40,000 shares.

Torbjörn Bjerke (born 1962)

President and Chief Executive Officer until January 13, 2011
MD
Employed since November 2007
President and CEO of Biolipox AB from January 2004 until November 2007. Significant experience of the pharmaceuticals industry, garnered from time at AstraZeneca and as Executive Vice President of Research & Development at ALK-Abello. Member of the Board of NeuroSearch AS and TopoTarget AS
Shares and options: 121,854 shares and employee stock options entitling to 84,586 shares.

Financial information in brief

The tables below present financial information for the Orexo Group for the fiscal years 2006–2010.

Statement of operational information

	2010	2009	2008	2007	2006
Net revenues	210.5	236.1	233.3	76.8	132.0
Cost of goods sold	–26.3	–23.6	–17.4	–14.4	–11.2
Gross profit	**184.2**	**212.5**	**215.9**	**62.4**	**120.8**
Selling costs	–35.2	–39.3	–38.8	–11.7	–7.9
General and administrative expenses	–46.8	–46.3	–55.3	–74.2	–57.4
Research and development costs	–186.9	–224.2	–238.1	–156.0	–94.5
Other operating income and expenses	7.7	–1.8	3.8	–1.1	–1.6
Gain on the sale of subsidiaries	–4.7	–	–	–	–
Operating loss	–81.8	–99.1	–112.5	–180.6	–40.6
Net financial items	**–7.5**	**2.1**	**9.0**	**7.7**	**7.5**
Loss after financial items	–89.3	–96.9	–103.5	–172.8	–33.0
Tax on earnings for the year	–	–1.1	0.4	0.2	–
Net loss for the year	**–89.3**	**–98.1**	**–103.1**	**–172.6**	**–33.0**

Balance sheet information

	2010	2009	2008	2007	2006
Intangible fixed assets	407.4	447.0	392.0	393.4	11.0
Tangible fixed assets	41.7	45.8	50.3	57.8	6.4
Financial assets	–	–	–	–	–
Inventories	8.0	8.4	14.0	13.3	9.2
Accounts receivable	99.2	31.8	28.8	9.6	12.0
Other current assets	20.6	28.9	28.7	36.2	8.8
Short-term investments	–	–	–	–	56.1
Cash and bank balances	135.8	87.4	188.2	291.6	276.4
Total assets	**712.7**	**649.3**	**702.0**	**801.9**	**379.9**
Shareholders' equity	468.2	548.6	569.8	671.3	324.3
Interest-bearing liabilities	103.9	16.0	–	–	–
Noninterest-bearing liabilities and provisions	140.6	84.7	132.2	130.6	55.6
Total shareholders' equity and liabilities	**712.7**	**649.3**	**702.0**	**801.9**	**379.9**
Cash flow information					
Cash flow from operating activities before changes in working capital	–49.4	–79.3	–91.2	–165.4	–21.6
Cash flow from changes in working capital	6.4	–54.6	–10.3	12.6	3.9
Cash flow from continuing operations	–43.0	–133.9	–101.5	–152.8	–17.7
Divestment of subsidiaries	–	–	–	–	–
Acquisition of tangible assets	–3.4	–3.2	–1.6	–49.3	–4.6
Acquisition of intangible assets		–	–	–	–0.1
Change in short-term investments	–	–	–	56.1	33.5
Acquisition of subsidiaries	–	24.7	–0.3	158.2	–8.2
Cash flow after investment activities	–46.4	–112.4	–103.4	12.2	2.9
Liquidity from the issue of convertible promissory notes	111.2	–	–	–	–
Amortization of loans	–16.0	–	–	–	–
Borrowings	–	16.0	–	–	–
New share issues	–	0.1	–	3.0	13.0
Cash flow for the period	48.8	–96.3	–103.4	15.2	15.9
Cash and cash equivalents at year-end	135.8	87.4	188.2	291.6	276.4

Key data

	2010	2009	2008	2007	2006
Growth in net revenue, %	–10.8	1.2	204.0	–41.8	111.6
Margins and profitability					
Gross margin, %	87.5	90.0	92.5	81.3	91.5
Profit margin, %	–42.4	–41.0	–44.4	–225.2	–25.0
Operating margin, %	–38.8	–42.0	–48.2	–235.2	–30.8
Return on total capital, %	–11.9	–13.7	–13.9	–44.8	–8.6
Return on equity, %	–17.9	–17.0	–16.8	–53.2	–9.6
Return on capital employed %	–14.2	–15.7	–16.9	–53.2	–9.6
Capital structure					
Working capital, net, SEK million	–2.7	5.3	–50.3	–60.9	–20.4
Working capital, net/net revenue, %	0.6	–9.5	–23.8	–52.9	–9.8
Operating capital, SEK million	436.3	477.2	381.6	379.7	–8.2
Capital turnover rate, multiple	46.1	55.0	61.3	41.4	–13.6
Shareholders' equity, SEK million	468.2	548.6	569.8	671.3	324.4
Net debt, SEK million	–31.9	–71.4	–188.2	–291.6	–332.5
Debt/equity ratio, multiple	22.2	–	–	–	–
Equity/assets ratio, %	65.7	84.5	81.2	83.7	85.4
Current ratio	188.3	233.7	213.2	292.3	719.3
Acid-test ratio	182.6	221.1	201.7	281.2	701.0
Interest coverage ratio, multiple	Neg	Neg	Neg	Neg	Neg
Employees					
Average number of employees	105	119	123	80	50
Of which engaged in R&D	71	93	92	54	31
Personnel expenses, SEK million	116.1	128.6	128.5	93.0	69.7
Data per share					
Before dilution	–	–	–	–	–
Average number of shares, thousands	23 403	22 715	21 617	15 108	13 391
Number of shares at end of period, thousands	23 404	23 401	21 617	21 617	13 885
Earnings per share after tax, SEK	–3.81	–4.3	–4.8	–11.4	–2.5
Shareholders' equity, SEK	20.01	23.4	26.4	31.0	23.4
Dividend, SEK	–	–	–	–	–
After dilution					
Average number of shares, thousands	25 501	23 801	22 689	16 184	13 605
Number of shares at end of period, thousands	25 943	24 488	22 685	22 693	14 099
Earnings per share after tax, SEK	–3.81	–4.3	–4.8	–11.4	–2.5
Shareholders' equity, SEK	18.05	22.4	25.1	29.6	23.0
After full dilution					
Number of shares after full dilution	26,609	25,327	23,301	23,010	14,320

Other information

2011 Annual General Meeting
The Annual General Meeting of Orexo AB will be held on Thursday April 7, 2011 at 3:00 p.m. at the IVA Conference Center, Grev Turegatan 16, in Stockholm, 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 Friday, April 1, 2011, 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 Friday, April 1, 2011.

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 Friday, April 1, 2011, 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 2011

Annual Report	March 17, 2011
2011 Annual General Meeting	April 7, 2011
Interim Report, January–March 2011	May 4, 2011
Interim Report, January–June 2011	August 10, 2011
Interim Report, January–September 2011	November 9, 2011

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 of the safety and efficacy of a drug in human beings.

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

Cyclooxygenase
Enzyme that catalyzes the first stage of prostaglandin formation from arachidonic acid.

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 effect on human patients 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.

GMP
Good Manufacturing Practice.

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

Joint Venture
A partnership where 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.

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

mPGES
Membrane-associated PGE synthase, an enzyme that catalyzes the second stage in the formation of PGE_2 from arachidonic acid.

Mucoadhesive
Something which sticks to the surface of the mucosa.

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

NSAID
Non-Steroidal Anti-Inflammatory Drug – essentially a non-opioid pain relieving drug.

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

PGE
Prostaglandins E2 – biologically active mediators acting upon arachidonic acid locally in inflammatory conditions.

Pharmacokinetics
The processes by which a pharmaceutical is absorbed, distributed 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 of the safety of a drug. Performed on healthy human volunteers.

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

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

Preclinical development/Preclinical studies
Studies of 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
A water-soluble compound that is the major nitrogenous end product of protein metabolism and is the chief component of urine in mammals and other organisms. Urea is also referred to as carbamide.

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

orexo

Orexo AB
Box 303
SE-751 05 Uppsala

T: +46-(0)18-780 88 00
F: +46-(0)18-780 88 88

info@orexo.com
www.orexo.com