Orexo AB (publ)
– Year-end Report, January-December 2005

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This text is an unofficial translation of the Interim Report prepared in Swedish. In the event of any discrepancy between the English translation and the official Swedish version, the Swedish version shall prevail.

Uppsala, February 23, 2006

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Year-end Report, January - December 2005

- Net sales amounted to MSEK 62.4 (86.7)
- After tax, a net loss of MSEK 43.2 was reported (-16.8)
- Earnings per share amounted to a loss of SEK 4.33 (-1.90)

Key events during the fourth quarter of 2005

- Orexo listed on Stockholm Stock Exchange O-List – received gross proceeds of MSEK 333.
- Orexo signed licensing agreement for Rapinyl™ (OX 20) for the European market.

Key events after the close of the period

- Orexo received first payment of MSEK 46.6, in January 2006, for the licensing agreement with ProStrakan Group plc relating to Rapinyl™ (OX 20) for the European market.

Condensed income statement[1]

MSEK	**3 months 2005 Oct-Dec**	**3 months 2004 Oct-Dec**	**12 months 2005 Jan-Dec**	**12 months 2004 Jan-Dec**
Net sales	**3.4**	**0.8**	**62.4**	**86.7**
Profit/loss after tax	**-35.4**	**-44.2**	**-43.2**	**-16.8**
Earnings per share, before dilution, SEK	**-3.09**	**-4.78**	**-4.33**	**-1.90**
Earnings per share, after dilution, SEK	**-3.09**	**-4.78**	**-4.33**	**-1.90**

1) *Refers to Group unless stated otherwise in this year-end report. Figures in parentheses give the result for the corresponding period of the preceding year. All share-related data represents information following the split approved by the Annual General Meeting on April 20, which was implemented in conjunction with the listing of Orexo's shares on the Stockholm Stock Exchange O-List on November 9, 2005.*

2005 in brief

Continued expansion – new analytical laboratory taken into use and additional expertise recruited
As the company's development portfolio advanced, Orexo recruited additional personnel during 2005, increasing the number of employees by 15 and occupying additional premises.

Efficacy study for OX 22 completed with positive results
During the period, Orexo completed an efficacy study for OX 22, with positive results. OX 22 is a pharmaceutical product for the treatment of temporary sleep disturbances and is considered to have significant medical and commercial potential.

Increased investment in diagnostic pharmaceutical – new subsidiary formed to focus on the Diabact® UBT product
As part of Orexo's increased program of investment in its first commercialized product, Diabact® UBT, the subsidiary Kibion AB was formed. Diabact® UBT is an exhalation test used to detect the presence of the stomach-ulcer bacterium Helicobacter pylori.

Orexo AB sells rights to its cell-penetrating peptide technology, CPP
Orexo's strategy is to regularly evaluate and analyze the company's products as well as its technologies. Orexo's business model is based on short development times and low development risk. Orexo's cell-penetrating peptide technology (CPP) is promising but is still in an early research phase. The sale of the technology was therefore considered to be a natural strategic decision. The purchase price totaled MSEK 9.5 and resulted in a capital gain of MSEK 8.9.

Rapinyl™ (OX 20) – Orexo received milestone payment of MUSD 6.5 (MSEK 49.6), following completion of clinical phase II study
Orexo AB has fulfilled the qualification requirements for the first milestone payment of MUSD 6.5 from Endo Pharmaceuticals Inc., following completion of a clinical trial of Rapinyl™ (OX 20), Orexo's patented product for the treatment of breakthrough pain in cancer patients. The two companies signed a licensing agreement in August 2004 that gives Endo Pharmaceuticals the exclusive rights to the development and marketing of Rapinyl™ (OX 20) in the North American market.

Licensing agreement for Rapinyl™ (OX 20) on the European market
In December, Orexo concluded a licensing agreement with ProStrakan Group plc. The agreement gives ProStrakan Group plc exclusive rights, as of January 2, 2006, to register and market Orexo's patented pain-relief product Rapinyl™ (OX 20) in the European market. When the rights are transferred to ProStrakan Group plc, Orexo will receive a lump-sum payment of MEUR 5. In addition, Orexo will receive payments that could reach a further MEUR 17 for fulfillment of targets for registration of the product and for achievement of specified sales levels. When sales begin, Orexo will become entitled to double-digit royalty payments.

Orexo listed on Stockholm Stock Exchange O-List
In November 2005, Orexo was listed on the Stockholm Stock Exchange O-List. The share price was set at SEK 90 per share. The offering comprised 3.7 million newly issued shares. The gross proceeds totaled MSEK 333.

Operations

Orexo in brief

Orexo is a pharmaceutical company that focuses on developing new pharmaceutical drugs within areas currently subject to considerable clinical needs. Orexo's products are based on existing pharmaceuticals and the company's patented drug-delivery technologies. Orexo applies its broad expertise in medicine and pharmacy to the further development of existing pharmaceutical substances. By combining well-documented compounds with its own patented drug-delivery methods and its unique expertise in "dry formulations" (for example, tablets), Orexo is able to develop new patented pharmaceuticals.

Orexo's drug development activities are commercially driven at all levels, and to date the company has elected to focus on tablet-based, fast-dissolving formulations – designed for example to be absorbed via the mucous membrane in the mouth – a patented method that enables an extremely rapid and effective uptake of pharmaceutical substances. This approach enables effective new pharmaceutical drugs to be developed in therapy areas such as acute pain and sleeping disorders.

Orexo was founded in Uppsala in 1995 and has grown into an organization with 43 full-time employees, most of whom are active in research and development, clinical development and pharmaceutical registration. At present, the company has one product on the market, three under clinical development, one of which has been out-licensed in the US, Europe and Japan, two projects in the pharmaceutical formulation phase, and one project in an early development stage. Orexo has adopted an active intellectual property rights strategy and has, since its inception, built up an extensive patent portfolio to protect its products and technologies.

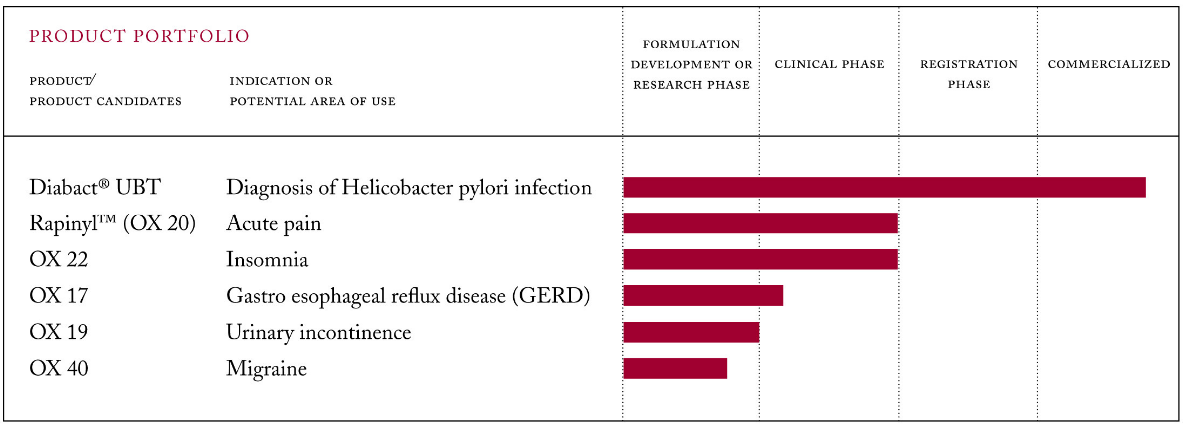
Market for drug delivery

The science of drug delivery can be summarized as the process of ensuring that the active substance in a pharmaceutical product it optimally delivered to the site of action. The demand for drug-delivery products is increasing rapidly due to the fact that these new pharmaceuticals can for example offer shorter time to onset of effect or improved safety profiles.

Many pharmaceutical products on the market today have shortcomings – for example, they are slow-acting, have side effects, must be administered frequently or perhaps can only be injected. This is why demand for technologies that can make already existing products more efficient is increasing rapidly. In 2004, industry sources estimated that sales of pharmaceutical products that utilize drug-delivery methods exceeded USD 79 billion, a figure that is expected to grow to USD 117 billion by 2009 (Datamonitor 2004).

Orexo's product portfolio

Orexo's portfolio of approved pharmaceuticals, clinical development phase product candidates and projects in formulation development stages include:



Diabact® UBT – Orexo's first product and the product around which the company was founded – is a pharmaceutical used for diagnosis of Helicobacter pylori, the stomach ulcer bacteria. The product is based on Orexo's patented technology for fast-dissolving tablets. Diabact® UBT was launched in 2000 and is currently marketed in Finland, the UK, Hong Kong, Germany, Ireland and Sweden. In Japan, the technology has been licensed to the Kyowa Hakko.

Rapinyl™ (OX 20) – for the treatment of acute pain. Rapinyl™ (OX 20) was developed for the treatment of cancer-related breakthrough pain as its primary indication. Orexo´s principal technology, the sublingual dosage method whereby a fast-dissolving tablet is placed under the tongue, produces rapid and predictable onset of action and effect. Licensing agreements for Rapinyl™ (OX 20) have been signed with Endo Pharmaceuticals for the North American market, ProStrakan Group plc for the European market and with Kyowa Hakko for the Japanese market.

OX 22 – for the treatment of insomnia. OX 22 is based on Orexo's sublingual tablet technology. One advantage over the currently available drugs for treating sleeping disturbances includes shorter time to onset of sleep. Phase I and II studies have been completed, with positive results that confirm the product's medical potential for on-demand medication of sleeping disturbances.

OX 17 – for the treatment of gastroesophageal reflux disorder (GERD), a disease that gives the patient recurrent heartburn. In OX 17, two well-proven active substances have been combined so that the acid secretion is rapidly and effectively inhibited through two different mechanisms in action. OX 17 was developed to offer rapid and effective lasting relief of the symptoms of reflux disease. A patent for the product has been applied for globally and approved by New Zealand and China as first countries. The results of a feasibility study involving healthy test subjects, confirm the product's pharmacological effects and significant medical potential.

OX 19 – for the treatment of daytime and nocturnal urinary incontinence. In addition to the treatment of nocturia, OX 19 also focuses on short-term on-demand treatment of urinary incontinence in women suffering from an overactive bladder. OX 19 is in the formulation phase.

OX 40 – for the acute treatment of moderate and severe migraine. OX 40 is formulated to have a fast and predictable onset of effect, which is an essential characteristic for effective on-demand medication. OX 40 is in the formulation phase.

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The period in figures: January 1 – December 31, 2005

Condensed statement of operations

MSEK	3 months 2005 Oct-Dec	3 months 2004 Oct-Dec	12 months 2005 Jan-Dec	12 months 2004 Jan-Dec
Net sales	**3.4**	**0.8**	**62.4**	**86.7**
Cost of goods sold	-0.8	-0.6	-3.0	-1.9
Gross profit/loss	**2.6**	**0.2**	**59.4**	**84.8**
Selling expenses	-1.6	-0.5	-3.3	-1.8
Administrative expenses	-18.3	-7.6	-44.0	-24.6
Research and development costs	-19.6	-26.3	-67.2	-64.4
Other income and expenses	0.9	0.0	1.7	0.3
Sale of subsidiary	-	-	8.9	-
Operating profit/loss	**-36.0**	**-34.1**	**-44.5**	**-5.8**
Net financial items	0.6	-10.0	1.3	-9.8
Tax	-	-	-	-1.2
Profit/loss for the period	**-35.4**	**-44.2**	**-43.2**	**-16.8**

As of January 1, 2005, the Group applies the International Financial Reporting Standards (IFRS), formerly known as the IAS, in accordance with EU regulations. The effects of the transition have been entered in the accounts through an adjustment of opening equity for 2004. Comparable figures for 2004 have been recalculated. See pages 18-22.

Revenue

Net sales: MSEK 62.4 (86.7) –28.1 percent

Net sales for the January-December 2005 period totaled MSEK 62.4 (86.7). Sales were distributed as follows:

MSEK	Jan-Dec 2005	Jan-Dec 2004	Oct-Dec 2005	Oct-Dec 2004
Diabact® UBT	5.1	3.5	1.5	0.8
License revenue Rapinyl™ (OX 20)	51.6	83.1	-	-
Other revenue	5.7	0.1	1.9	0.0
Total	62.4	86.7	3.4	0.8

Most of the revenue for Rapinyl™ (OX 20) was attributable to a milestone payment of MUSD 6.5 from Orexo's licensing agreement with Endo Pharmaceuticals in the US. Revenue for 2004 also includes a one-off payment of MUSD 10.0 received in conjunction with the signing of this agreement.

Net sales for the October-December 2005 period totaled MSEK 3.4 (0.8). The increase is attributable to increased revenue for Diabact® UBT and for services regarding clinical studies relating to Rapinyl™ (OX 20) performed for Endo Pharmaceuticals in the US.

Expenses and earnings

Selling expenses: MSEK 3.3 (1.8) +79.6 percent

The Group's selling expenses are attributable to the sale of Diabact® UBT. Selling expenses during the January-December 2005 period amounted to MSEK 3.3 (1.8), which was 79.6 percent higher than in the preceding year. This resulted from increased investments in the product.

Selling expenses for the October-December 2005 period amounted to MSEK 1.6 (0.5).

Administrative expenses: MSEK 44.0 (24.6) +78.7 percent
Administrative expenses during the January-December 2005 period amounted to MSEK 44.0 (24.6), an increase of 78.7 percent. The increase was attributable to continued expansion and the stock exchange listing of Orexo.

Administrative expenses during the October-December 2005 period amounted to MSEK 18.3 (7.6).

Expenses for the company's stock option program
Expenses for the company's employee stock option program during the January-December 2005 period totaled MSEK 11.9 (7.8), of which MSEK 7.8 (4.5) was attributable to administrative expenses, MSEK 4.0 (3.1) to research and development costs, and MSEK 0.1 (0.2) to selling expenses. These expenses relate both to the increase in value of employees services during the period and the social security costs calculated on the basis of this increase in value. The company will have to pay social security fees on the gain — calculated as the difference between the exercise price of the employee options and the market value of the share at the time the employee option is exercised — that may arise in conjunction with the exercising of the employee options.

The social security fees that may occur as a result of the employee options program have been hedged in terms of cash flow, but not in the accounts, through the issuance of warrants to one of Orexo's subsidiaries.

Research and development costs: MSEK 67.2 (64.4) +4.4 percent
Research and development costs during the January-December 2005 period amounted to MSEK 67.2 (64.4), an increase of 4.4 percent.

Research and development costs comprise costs for personnel, employee stock options, premises, external costs for clinical testing, pharmaceutical registration and laboratory services, and depreciation of equipment, acquired patents and other intangible assets. Orexo has no capitalized costs for research and development. The company has a number of development projects in different phases, including Rapinyl™ (OX 20) for the treatment of acute pain, OX 22 for the treatment of insomnia, OX 17 for reflux disorder, OX 19 for the treatment of daytime and nocturnal incontinence, and OX 40 for acute treatment of moderate to severe migraine.

Research and development costs for full-year 2005 include a royalty remuneration of MSEK 5.1 (8.5), which was attributable to Rapinyl™ (OX 20). The royalty remuneration was made due to the milestone payment recorded during the third quarter of 2005. Orexo's total royalty costs attributable to Rapinyl™(OX 20) cannot exceed 10 percent of the total license revenue for the product, or a maximum of MSEK 30.0, of which MSEK 15.1 has been paid, including the remuneration of MSEK 5.1 mentioned above. No royalty costs of this type apply to any of the company's other products.

Research and development costs during the October-December 2005 period amounted to MSEK 19.6 (26.3). Expenses for the fourth quarter of 2004 included a write-down of consolidated goodwill in an amount of MSEK 10.4.

Depreciation and writedowns
Depreciation during the January-December 2005 period amounted to MSEK 2.9 (16.0). In December 2004, consolidated goodwill was written down by MSEK 10.4.

Sale of subsidiary
The operating result includes a capital gain of MSEK 8.9 that occurred when Orexo sold the CPP rights. The transaction was carried out through the sale of a wholly owned subsidiary.

Tax
Tax expenses during the January-December 2005 period amounted to MSEK 0.0 (1.2). The tax expense in 2004 related to foreign withholding tax for milestone payments received in accordance with the licensing agreement for Rapinyl™ (OX 20) in Japan, which could not be offset against Swedish income tax.

Net result
The operating loss for the January-December 2005 period amounted to MSEK 44.5 (-5.8). The net loss for the period after financial items totaled MSEK 43.2 (-15.6) and the loss after tax amounted to MSEK 43.2 (-16.8).

The operating loss for the October-December 2005 period amounted to MSEK 36.0 (-34.1). The loss for the period after financial items and tax totaled MSEK 35.4 (-44.2).

Financial position
The Group's liquid assets and current investments at December 31, 2005 totaled MSEK 350.1 (84.2). Cash flow after financing for 2005 amounted to MSEK 176.2 (68.8). At December 31, 2005, the Group's liquid assets and current investments were invested in bank deposits and municipal, banking/housing and commercial paper with durations to May 2006 at the longest and with a rating corresponding to K1 at the lowest.

In conjunction with the company's listing on the Stockholm Stock Exchange O-List in November, a new share issue was implemented whereby 3.7 million shares were issued at a price of SEK 90 per share. Before deductions for issue expenses, the issue proceeds thus amounted to MSEK 333.0. After deductions for issue expenses, the company's proceeds amounted to MSEK 302.5.

Equity amounted to MSEK 338.9 (75.1). The equity/assets ratio was 91 percent (74).

Investments
Gross investments in tangible assets for the January-December 2005 period amounted to MSEK 2.5 (1.1) and mainly related to investments in production and research equipment.

Parent Company
The majority of the Group's business is carried out in the Parent Company Orexo AB. Net sales amounted to MSEK 63.1 (86.7) and net loss after financial items was MSEK 41.5 (- 21.1). Investments amounted to MSEK 2.5 (1.1). The Parent Company's liquid funds and current investments totaled MSEK 347.6 (83.8).

Pledged assets and contingent liabilities
During the period, the National Tax Board ruled in Orexo's favor regarding a previously questioned VAT deduction of approximately MSEK 2.0. The divestment of the CPP rights reduced the company's contingent liabilities by MSEK 1.5. Apart from this, no significant change in pledged assets and contingent liabilities occurred during the period.

Dividend
The Board of Directors does not intend to propose payment of a dividend for fiscal year 2005.

Annual General Meeting
The Annual General Meeting will take place in Stockholm at 5:00 p.m. on April 27, 2006. The notice of meeting will be published not later than March 30, 2006.

Annual Report
Orexo AB's Annual Report will be presented at the beginning of April.

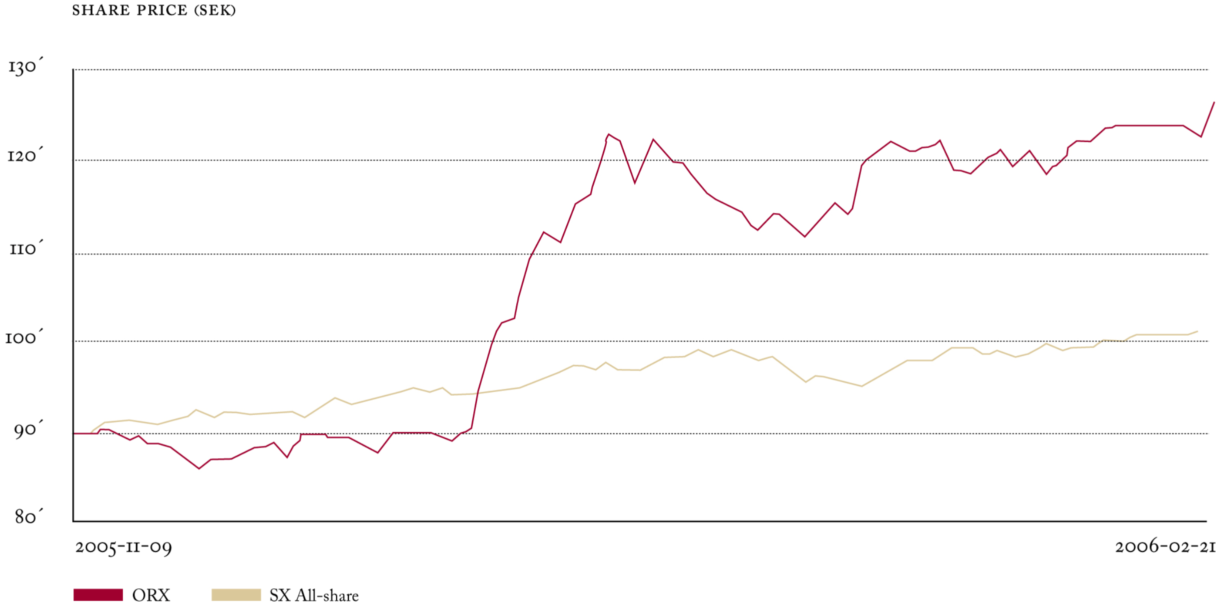
The Orexo share

The Orexo share was introduced on Stockholm Stock Exchange O-List on November 9, 2005, at a price of SEK 90 and was quoted at SEK 122 at year-end. The company's market capitalization based on the number of shares outstanding at year-end amounted to MSEK 1,621.7.

Analysts who follow Orexo

ABG Sundal Collier	Alexander Lindström and Peter Östling
D. Carnegie AB	Angelica Fatouros
Handelsbanken Markets	Hans Mähler
Redeye	Björn Andersson

Share graph



Upcoming report dates

Interim report January-March 2006________________________May 12, 2006
Interim report April-June 2006___________________________August 21, 2006
Interim report July-September 2006_______________________October 18, 2006
Year-end report for fiscal year 2006 ________________________not later than February 28, 2007

This year-end report is based on financial statements audited by Orexo's auditors.

Uppsala, February 23, 2006

Orexo AB (publ)

Zsolt Lavotha, President and CEO

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CONSOLIDATED BALANCE SHEETS

(SEK thousands)	Notes	2005 Dec 31	2004 Dec 31
ASSETS			
Fixed assets			
Tangible fixed assets		3 160	2 277
Intangible fixed assets		2 553	4 529
Goodwill		-	-
Financial fixed assets		2 290	2 405
Total fixed assets		**8 003**	**9 211**
Current assets			
Inventories		3 028	1 419
Current receivables		10 159	6 805
Current investments		89 631	-
Cash and bank balances		260 489	84 240
Total current assets		**363 307**	**92 464**
Total assets		**371 310**	**101 675**
SHAREHOLDERS´EQUITY AND LIABILITIES	3		
Share capital		5 317	3 695
Other reserves		376 862	94 418
Accumulated losses		-43 270	-23 019
Total shareholders´equity		**338 909**	**75 094**
Long-term liabilities			
Provisions		13 783	5 496
Current liabilities			
Current liabilities, non interest-bearing		18 618	21 085
Total liabilities		**32 401**	**26 581**
Total shareholders´equity and liabilities		**371 310**	**101 675**
Pledged assets		2 500	2 500
Contingent liabilities		50	1 550

CONSOLIDATED STATEMENTS OF OPERATIONS

(SEK thousands)	Notes	3 months 2005 Oct-Dec	3 months 2004 Oct-Dec	12 months 2005 Jan-Dec	12 months 2004 Jan-Dec
Net revenues		3 354	784	62 352	86 715
Cost of goods sold	2	-794	-619	-2 954	-1 930
Gross profit		**2 560**	**165**	**59 398**	**84 785**
Selling costs	2	-1 607	-464	-3 303	-1 839
General and administrative costs	2	-18 301	-7 616	-44 030	-24 638
Research and development costs	2	-19 597	-26 251	-67 231	-64 398
Other operating revenues		956	52	1 927	672
Other operating costs	2	-27	-34	-186	-368
Profit from sale of subsidiary		-	-	8 865	-
Operating profit/loss		**-36 016**	**-34 148**	**-44 560**	**-5 786**
Earnings from net financial items					
Interest income and similar items		749	439	1 433	695
Interest expenses and similar items		-1	0	-7	-79
Write-down of promissory note receivables		-115	-	-115	-
Other financial items		-	-10 455	-	-10 455
Result after financial items		**633**	**-10 016**	**1 311**	**-9 839**
Tax on the year´s income		-	-	-	-1 156
Net loss		**-35 383**	**-44 164**	**-43 249**	**-16 781**
Loss per share, before dilution, SEK		-3.09	-4.78	-4.33	-1.90
Loss per share, after dilution, SEK		-3.09	-4.78	-4.33	-1.90
Average number of shares, before dilution		11 432 375	9 238 000	9 995 896	8 840 250
Average number of shares, after dilution		12 347 375	10 011 250	10 910 896	9 613 500
Number of shares, before dilution		13 292 500	9 238 000	13 292 500	9 238 000
Number of shares, after dilution		14 207 500	10 011 250	14 207 500	10 011 250

CONSOLIDATED CASH-FLOW STATEMENTS

(SEK thousands)	Notes	3 months 2005 Oct-Dec	3 months 2004 Oct-Dec	12 months 2005 Jan-Dec	12 months 2004 Jan-Dec
Continuing operations					
Loss before interest expense and interest income		-36 016	-34 148	-44 560	-5 786
Interest paid		-1	0	-7	-79
Interest received		749	439	1 433	695
Other financial expenses		-	-10 455	-	-10 455
Write-down of promissory note receivables		-115	-	-115	-
Taxes paid		-	-	-	-1 156
Adjustment for items not affecting cash flow	4	9 172	15 296	6 718	18 879
Cash flow from operating activities before changes in working capital		**-26 211**	**-28 868**	**-36 531**	**2 098**
Cash flow from changes in working capital					
Change in accounts receivable		51 160	-45	-297	-319
Change in other current receivables		-2 907	-430	-3 057	-2 629
Change in inventories		-691	651	-1 609	-62
Change in current liabilities		-4 068	-28	-2 462	16 818
Cash flow from operating activities		**17 283**	**-28 720**	**-43 956**	**15 906**
Investment activities					
Proceed from sale of subsidiary		-	-	9 405	-
Acquisition of machinery and equipment		-560	-100	-2 465	-1 120
Investing in short-term investments		-89 631	-	-89 631	-
Total cash flow after investment activities		**-72 908**	**-28 820**	**-126 647**	**14 786**
Financing activities					
Proceeds from new share issues		304 838	1 825	302 896	53 972
Total cash flow after financing activities		**231 930**	**-26 995**	**176 249**	**68 758**
Cash flow for the year					
Liquid funds, at the beginning of period		28 559	111 235	84 240	15 482
Change in liquid funds		231 930	-26 995	176 249	68 758
Liquid funds at the end of the period		**260 489**	**84 240**	**260 489**	**84 240**

KEY FIGURES

	3 months 2005 Oct-Dec	3 months 2004 Oct-Dec	12 months 2005 Jan-Dec	12 months 2004 Jan-Dec
Operating margin, %	-1 074	-4 356	-71	-7
Profit margin, %	-1 055	-5 633	-69	-18
Return on total capital, %	-15	-27	-34	-7
Return on shareholders´equity, %	-17	-43	-43	-30
Return on capital employed, %	-17	-33	-43	-9
Debt/equity ratio, multiple	0	0	0	0
Equity/assets ratio, %	91	74	91	74
Current ratio, %	1 951	439	1 951	439
Acid test ratio, %	1 935	432	1 935	432
Average number of shares, before dilution	11 432 375	9 238 000	9 995 896	8 840 250
Average number of shares, after dilution	12 347 375	10 011 250	10 910 896	9 613 500
Number of shares at end of period, after full dilution	14 578 500	10 547 250	14 578 500	10 547 250
Number of shares at end of period, before dilution	13 292 500	9 238 000	13 292 500	9 238 000
Number of shares at end of period, after dilution	14 207 500	10 011 250	14 207 500	10 011 250
Loss per share, before dilution, SEK	-3.09	-4.78	-4.33	-1.90
Loss per share, after dilution, SEK	-3.09	-4.78	-4.33	-1.90
Shareholder´s equity per share, before dilution, SEK	25.50	8.13	25.50	8.13
Shareholder´s equity per share, after dilution, SEK	23.85	7.50	23.85	7.50
Number of employees at end of period	43	28	43	28
Average number of employees	37	23	37	23
Shareholders´equity	338 909	75 094	338 909	75 094
Capital employed	338 909	75 094	338 909	75 094

Definitions

Operating margin: Operating profit/loss as a percentage of net sales.

Profit margin: Profit/loss after financial items as a percentage of net sales.
Return on total capital: Operating profit/loss plus financial revenues as a percentage of average balance-sheet total.
Return on shareholders' equity: Profit/loss for the year as a percentage of average adjusted shareholders' equity.
Return on capital employed: Operating profit plus financial revenues as a percentage of average capital employed.

Capital employed: Average of interest-bearing liabilities and adjusted shareholders' equity.

Debt/equity ratio: Interest-bearing liabilities divided by shareholders' equity.

Equity/assets ratio: Shareholders' equity in relation to the balance-sheet total.

Current ratio: Current assets as a percentage of current liabilities.

Acid test ratio: Current assets excluding inventories as a percentage of current liabilities.
Number of shares at end of period, after full dilution: Total number of shares plus the maximum number of shares that can be subscribed through options outstanding
Number of shares at end of period, after dilution: Calculation of the dilution from options issued by the company though 2005 was carried out in accordance with IAS 33.
Loss per share, before dilution: Profit/loss divided by the average number of shares outstanding before dilution.
Loss per share, after dilution: Profit/loss divided by the average number of shares outstanding after dilution.

Shareholders' equity per share, before dilution: Shareholders' equity divided by the number of shares before dilution at the close of the period.
Shareholders' equity per share, after dilution: Shareholders' equity divided by the number of shares after dilution at the close of the period.

Notes

1. Accounting principles

This year-end report was prepared in accordance with IAS 34 Interim Financial Reporting, which complies with the requirements stipulated in the Swedish Financial Accounting Standards Council's recommendation RR 31, Interim Financial Reporting for Groups. The accounting principles have been amended in relation to the most recent annual report, due to the transition to IFRS. The effects of the transition to IFRS and the new accounting principles are described below.

As of January 1, 2005, Orexo started to compile its consolidated financial statements in compliance with IFRS. The interim report for the first quarter of 2005 was the first report issued in accordance with IFRS. Up to 2004, the company applied the Swedish Financial Accounting Standards Council's recommendations and statements. The transition to IFRS is reported in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards," which means that the date of transition is January 1, 2004.

IFRS 1 prescribes that the comparative year, 2004, also be reported in accordance with IFRS. Financial information concerning fiscal years prior to 2004 has not been recalculated. According to the main rule, all applicable IFRS and IAS standards that have become effective and have been approved by the EU at December 31, 2005, must be applied retroactively. However, in 12 specific instances, IFRS 1 permits companies to exercise exceptions from full retroactive application, in cases where the International Accounting Standards Board has determined that the benefit gained from retroactive application does not correspond to the cost involved.

Orexo intends to use the three exceptions described below; the other exceptions are not considered to apply to Orexo.

1. Business combination: Orexo has elected to apply the exception from the provisions in IFRS 3, Business Combinations, whereby IFRS 3 does not need to be applied to acquisitions completed before January 1, 2004. This affects Orexo's acquisition of CePeP AB in 2003.
2. Share-based Payment: Orexo has elected not to apply IFRS 2, and the associated recalculation requirement, for option programs under which allotment occurred prior to November 7, 2002.
3. IAS 39 "Financial instruments: Recognition and measurement." Orexo has applied IAS 39 since January 1, 2005. As permitted by IFRS 1, the company has decided not to recalculate comparative figures for 2004 pertaining to financial instruments in accordance with IAS 39. A reclassification and revaluation of the assets and liabilities that are to be reported in accordance with IAS 39 was conducted on January 1, 2005. Accordingly, financial instruments are reported in the comparative figures for 2004 in accordance with the previously applied accounting principles. Orexo has concluded that there are no differences between the figures reported in accordance with IAS 39 and the previously reported figures.

The changes in accounting principles that this transition requires and the transitional effects on the consolidated income statement and balance sheet are presented below. The sections below also describe the exceptions from full retroactive application that the company has chosen to apply.

The Parent Company's accounts were prepared in accordance with RR32. Compared with the most recent annual report, this has resulted in changed accounting principles because the Parent Company has found support in IFRS 2 for the reporting of incentive programs. The effects on the Parent Company's income statement and financial position are the same as the effects on the consolidated financial statements, since all personnel are employees of the Parent Company.

In other respects, the accounting principles applied in this year-end report are described in greater detail in the notes to the 2004 Annual Report.

2. Costs distributed by type of cost

(SEK thousands)	2005 Oct-Dec	2004 Oct-Dec	2005 Jan-Dec	2004 Jan-Dec
Raw materials and supplies	1 153	930	5 053	2 897
Other external costs	17 650	10 126	59 301	39 080
Personnel costs	20 787	9 980	50 451	35 160
Depreciation and write-downs	736	13 948	2 899	16 036
TOTAL	**40 326**	**34 984**	**117 704**	**93 173**

3. Shareholders´ equity

Changes in consolidated shareholders´equity (SEK thousands)	**2005 Oct-Dec**	**2004 Oct-Dec**	**2005 Jan-Dec**	**2004 Jan-Dec**
Shareholders´equity brought forward according to balance sheet	68 520	116 350	75 094	35 575
Profit for the period	-35 383	-44 164	-43 249	-16 781
Subscription of shares through excercise of warrants from unit issue	0	0	134	0
Subscription of shares through exercise of warrants	223	0	819	1 586
New share issue	333 000	0	333 000	52 439
Employee stock options, value of employees´service	935	1 030	3 572	2 275
Share issue expenditure	-28 386	1 878	-30 461	
Amount of close of period	**338 909**	**75 094**	**338 909**	**75 094**

Shares outstanding
The number of shares outstanding at December 31 amounted to 13,292,500, all of which were common stock. All shares carry entitlement to one vote each. In conjunction with the company's market introduction, a 1:250 share split was implemented. During the third quarter, 1,337 new shares were subscribed for through options issued in the unit issue implemented during 2004. The change in the number of shares is distributed as follows:

Opening number of shares	**36 952**
Subscription of shares through exercise of warrants from unit issue	1 337[1]
Subscription of shares through exercise of warrants	13
Total before split	38 302
Split 1:250	9 575 500
New share issue	3 700 000
Subscription of shares through exercise of warrants	17 000
Closing number of shares	**13 292 500**

[1] Relates to the unit issue described in Note 8 in the company's annual report for 2004. The proceeds to Orexo from this unit issue amounted to SEK 134,000.

Employee stock options and warrants

The total number of options outstanding at December 31, 2005 was 5,144. After the 1:250 share split, these options carry entitlement to subscription for a total of 1,286,000 shares.

	Opening	Deducted	Added	Closing	Number of shared to which options carry entitlement
Number of stock options and warrants	**5 237**	**-1 544**	**1 451**	**5 144**	**1.286.000**
Of which					
- employee stock options	1 753	-126	1 036	2 663	665 750
- warrants held by subsidiary for cash-flow hedging	724		333	1 057	264 250
- warrants	1 423	-81	82	1 424	356 000
- warrants from unit issue	1 337	-1 337		0	0

During the year, 200 employee stock options giving entitlement to subscribe for 50,000 shares were allocated to a senior executive. In addition, a total of 92 employee stock options giving entitlement to subscribe for 23,000 shares were allocated to two newly appointed Board members at the suggestion of certain shareholders. The issue price for these shares, totaling 73,000, was SEK 53.63 per share, and the term of the options is up to and including September 30, 2015. Employee stock options are earned at the rate of one third of the total number of options issued for each of the three years following September 30, 2005. The market value at the time of issue, calculated using the Black & Scholes method, was SEK 34.28 per option (adjusted for the 1:250 share split).

A further 44 employee stock options giving entitlement to subscribe for 11,000 shares were allocated to other newly appointed personnel in the category of other personnel. These options were issued within the framework of earlier programs. During the period, 126 employee stock options giving entitlement to subscribe for 31,500 shares were relinquished in respect of personnel whose employment in the company ceased. A total of 42 warrants giving entitlement to subscribe for 10,500 shares were issued to two consultants.

In September 2005, Orexo introduced a new employee stock options program under the terms of which the Board of Directors is authorized to issue a total of 175,000 shares, which are included in the above summary. At December 31, 2005, none of these options had been issued.

During the period from October to December 2005, 81 warrants were utilized, resulting in subscription of 20,250 new shares.

4. Cash flow

Adjustment for items not included in cash flow

(**SEK thousands**)	**2005 Oct-Dec**	**2004 Oct-Dec**	**2005 Jan-Dec**	**2004 Jan-Dec**
Depriciation and write-downs	735	13 948	2 899	16 036
Disposals	0	20	0	20
Employee stock options, based on value of employees´service	8 322	1 328	12 456	2 823
Other	0	0	113	0
Profit from sale of subsidiary	0	0	-8 865	0
Write-down of promissory note receivables	115	0	115	
Total	**9 172**	**15 296**	**6 718**	**18 879**

Effect of application of IFRS on the consolidated balance sheet

(SEK thousands)	Notes	Jan 1, 2004 (transition date) Swedish GAAP	Effect of transition to IFRS	IFRS	Dec 31, 2004 Swedish GAAP	Effect of transition to IFRS	IFRS
ASSETS							
Fixed assets							
Tangible fixed assets		1 984		1 984	2 277		2 277
Intangible fixed assets		6 520		6 520	4 529		4 529
Goodwill		13 238		13 238	-		-
Financial fixed assets		2 405		2 405	2 405		2 405
		24 147		**24 147**	**9 211**		**9 211**
Current assets							
Inventories		1 357		1 357	1 419		1 419
Current receivables	a	4 166	-307	3 859	11 147	-4 342	6 805
Cash and bank balances		15 482		15 482	84 240		84 240
		21 005	**-307**	**20 698**	**96 806**	**-4 342**	**92 464**
Total assets		**45 152**	**-307**	**44 845**	**106 017**	**-4 342**	**101 675**
SHAREHOLDERS EQUITY							
Equity and reserves attributable to Parent Company´s shareholders							
Share capital		3 428		3 428	3 695		3 695
Other reserves	a	60 063	383	60 446	97 233	-2 815	94 418
Accumulated losses	a	-27 609	-690	-28 299	-21 492	-1 527	-23 019
Total shareholders´equity		**35 882**	**-307**	**35 575**	**79 436**	**-4 342**	**75 094**
LIABILITIES							
Current liabilities							
Current liabilities, interest-free		9 270		9 270	26 581		26 581
Total liabilities		**9 270**		**9 270**	**26 581**		**26 581**
Total shareholders´equity and liabilities		**45 152**	**-307**	**44 845**	**106 017**	**- 4 342**	**101 675**

	Notes	Jan 1, 2004	Dec 31, 2004
Shareholders´ equity according to previously applied principles		**35 882**	**79 436**
Share-based payment	a	-307	-4 342
Goodwill not amortized after the transition date	b	-	-
Tax effects of above		-	-
Total adjustment of shareholders´equity		**-307**	**-4 342**
Shareholders´equity according to IFRS		**35 575**	**75 094**

Effect of application of IFRS on the consolidated statement of operations for 2004

(SEK thousands)	Not	Jan 1, 2004 – Dec 31, 2004 Swedish GAAP	 Effect of transition to IFRS	 IFRS
Net revenues		86 715		86 715
Costs of goods sold		-1 930		-1 930
Gross profit		**84 785**		**84 785**
Selling costs	a	-1 803	-36	-1 839
General and administrative costs	a	-24 224	-414	-24 638
Research and development costs	a	-64 011	-387	-64 398
Other operating revenue		672		672
Other operating costs		-368		-368
Operating loss		**-4 949**	**-837**	**-5 786**
Interest income		695		695
Interest expenses		-79		-79
Other financial items		-10 455		-10 455
Loss after financial items		**-14 788**	**-837**	**-15 625**
Tax on the year´s income		-1 156		-1 156
Net loss		**-15 944**	**-837**	**-16 781**
Loss per share attributable to Parent Company´s shareholders during the period (SEK)				
- before dilution	c	-1.80		-1.90
- after dilution	c	-1.80		-1.90

		Operating profit/loss	Loss before taxes	Net profit/loss for the year
Results accoring to previously applied principles		**-4 949**	**-14 788**	**-15 944**
Share-based payments	a	-837	-837	-837
Total adjustment of result		**-837**	**-837**	**-837**
Result according to IFRS		**-5 786**	**-15 625**	**-16 781**

Effect of application of IFRS on the consolidated statement of operations Q 4 2004

(SEK thousands)	Notes	Oct 1, 2004 – Dec 31, 2004 Swedish GAAP	Effect of transition to IFRS	IFRS
Net revenues		784		784
Cost of goods sold		-619		-619
Gross profit		**165**		**165**
Selling costs	a	-459	-5	-464
General and administrative costs	a	-7 408	-208	-7 616
Research and development costs	a, b	-23 990	-2 261	-26 251
Other operating revenue		52		52
Other operating costs		-34		-34
Operating loss		**-31 674**	**-2 474**	**-34 148**
Interest income		439		439
Interest expense		0		0
Other financial items		-10 455		-10 455
Loss after financial items		**-41 690**	**-2 474**	**-44 164**
Tax on the year´s income		-		-
Net loss		**-41 690**	**-2 474**	**-44 164**

Loss per share attributable to Parent Company´s sharholders during the year (SEK)				
- before dilution	c	-4.51		-4.78
- after dilution	c	-4.51		-4.78

		Operating profit/loss	Loss before taxes	Net profit/loss for the year
Results according to previously applied principles		**-31 674**	**-41 690**	**-41 690**
Share-based payment	a	-347	-347	-347
Goodwill write downs	b	-2 127	-2 127	-2 127
Total adjustment of result		**-2 474**	**-2 474**	**-2 474**
Result according to IFRS		**-34 148**	**-44 164**	**-44 164**

a) Share-based payment

IFRS 2 “Share-based Payment” addresses share-based payment and, for accounting purposes, divides such payment into two main categories: payment made in the form of equity instruments and payment made in cash.

With respect to payment made in the form of equity instruments, the recommendation is to be applied for equity instruments allotted after November 7, 2002, and which were not earned (vested) before January 1, 2005. For these programs, the fair value of the benefit accrued over the period of earnings is to be expensed.

The company has issued its employees stock options between 2002 and 2004, free of charge. Of these employee stock options, one third of the allotment was earned (vested) on each of the first three anniversaries following their distribution, assuming that the holder was still an Orexo employee on this date. The fair value on issue of these programs totaled MSEK 6.5.

The employee stock options were previously reported in accordance with the real value method (based on the difference between the exercise price for the options and the market value of the underlying shares). The real value of the options was reported as an asset and increased restricted reserves at the start of the programs and was then expensed over the vesting period, which means that the value of the reported asset was reduced as the options were earned.

The effect on shareholders’ equity in connection with the transition to IFRS on January 1, 2004 amounted to a reduction of the accumulated loss by SEK 690,000, and an increase in restricted reserves by SEK 383,000. The transition also meant that the remaining previously reported restricted reserves and prepaid personnel costs were reduced by SEK 307,000. The reported result after tax for 2004 was reduced by SEK 837,000, of which selling expenses accounted for SEK 36,000, administrative expenses for SEK 414,000 and research and development costs for SEK 387,000.

According to the Swedish accounting rules, share-based payment according to this type of employee stock options plan was not reported as a cost in the income statement, other than at the real value on the date of issue. The adjustments are due in their entirety to the fact that in the past Orexo reported the cost of the stock option program based on fair value at issue of the options, while in accordance with IFRS Orexo values this cost on the basis of the market value of these options at issue (calculated in accordance with, for example, the Black & Scholes model). According to both the previous principles and IFRS, this cost is accrued over the time for the earning of these options.

b) Goodwill and other intangible assets

IFRS 3 “Business Combinations” requires that goodwill and other intangible assets with an indefinite useful life no longer be amortized but instead be subject to impairment testing, firstly in connection with the transition to IFRS on January 1, 2004 and, secondly, annually or more often if there are any indications of a decline in value. Such an asset is to be impaired if the reported value exceeds the recoverable value. The company conducted impairment tests at January 1, 2004, and at December 31, 2004.

The recoverable value is the same as the value in use. In the impairment test conducted on January 1, 2004, the value in use was calculated in accordance with the cash flow method based on anticipated future revenues and costs for technology during the period 2004 to 2024, which was the anticipated life of the patents. In the calculation, the company has used a probability factor for project phases and a discount rate of 10%.

The impairment test conducted on December 31, 2004 showed a need for impairment. The impairment is attributable to goodwill from the acquisition of the subsidiary CePeP AB. Because Orexo has decided to focus on other technologies, this technology is not expected to generate economic benefits in the foreseeable future. This strategic change was implemented during the fourth quarter and resulted in the reporting of the impairment. During the first to third quarters of 2004, depreciation according to plan was implemented in accordance with the previously applied accounting principles.

The recoverable value is equal to the value in use, which is calculated in accordance with the cash-flow method, based on anticipated future revenues and costs. We used probability factors for project phases and a discounting factor of 15% in this calculation. The result of this test showed that Orexo could report an impairment pertaining to the goodwill attributable to CePeP AB. The impairment has been charged against the income statement item, research and development.

In accordance with Swedish accounting principles, all intangible assets, including goodwill, are amortized over an estimated period in use. This change does not affect shareholders' equity on the date of transition, since goodwill amortization prior to January 1, 2004 is not to be reversed. Due to the impairment posted on December 31, 2004, there is no amortization to be reversed for 2004 either, although there was amortization during the first to third quarters of 2004, which is being reversed.

c) Earnings per share in accordance with IFRS for fiscal year 2004

Result used for calculating earnings per share before and after dilution (SEK thousands)	-16,781
Average number of shares before dilution	8,840,250
Adjustment for warrants	636,250
Average number of shares after dilution	9,476,500

d) Classification of preferred share capital

At the time of the transition, Orexo had preference shares outstanding. Based on IFRS 32, all of these shares constitute shareholders' equity.