Orexo AB (publ.)
– Interim Report, January–June 2006

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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, August 21, 2006

Orexo AB (publ) –
– Interim Report, January–June 2006

Key events during the period

- Improved financial performance and strong financial position
  - -Net sales amounted to MSEK 55.4 (2.9)
  - -The loss after tax was MSEK 9.3 (loss: 35.2)
  - -Earnings per share mounted to a loss of SEK 0.70 (loss: 3.81)
- The subsidiary Kibion AB acquired Noster System AB
- Positive study results for OX 17 were presented in May at the Digestive Disease Week (DDW) World Congress in Los Angeles, California, in the US
- Positive study results for Sublinox™ (OX 22) were presented in June at the Conference of the Associated Professional Sleep Societies (APSS) in Salt Lake City, Utah, in the US

Second quarter of 2006

- Net sales amounted to MSEK 5.1 (1.7)
- The loss after tax was MSEK 24.6 (loss: 16.4)
- Earnings per share mounted to a loss of SEK 1.85 (loss: 1.77)

Condensed statement of operations [1]

MSEK	3 months 2006 Apr–Jun	3 months 2005 Apr–Jun	6 months 2006 Jan–Jun	6 months 2005 Jan–Jun	12 months 2005 Jan–Dec
Net sales	**5.1**	**1.7**	**55.4**	**2.9**	**62.4**
Profit/loss after tax	**(24.6)**	**(16.4)**	**(9.3)**	**(35.2)**	**(43.2)**
Earnings per share, before dilution (SEK)	**(1.85)**	**(1.77)**	**(0.70)**	**(3.81)**	**(4.33)**
Earnings per share after dilution (SEK)[2]	**(1.85)**	**(1.77)**	**(0.70)**	**(3.81)**	**(4.33)**

[1]) Refers to the Group unless stated otherwise in this interim report. Figures in parentheses are for the corresponding period of the preceding year.

[2]) Since earnings are negative, the same earnings per share are reported after dilution as before dilution.

Key events during the period

Orexo´s subsidiary Kibion AB acquired Noster System AB
During the second quarter, Orexo AB's subsidiary, Kibion AB, acquired all of the shares in Noster System AB. The company has been consolidated as of June 9, and the ownership share amounted to 100 percent as of June 30. Through this acquisition, Orexo has expanded its portfolio in *H. Pylori* ("stomach ulcer bacteria") diagnostics and broadened its operations geographically.

Orexo publishes positive study results for Sublinox™ (OX 22) at the Conference of the Associated Professional Sleep Societies (APSS)
Orexo published positive study result for Sublinox™ (OX 22) at the Conference of the Associated Professional Sleep Societies (APSS) in Salt Lake City, USA. The results from the Sublinox™ (OX 22) study demonstrated fast onset of sleep, and maintained sleep during the night without "day-after" residual effects.

The study - involving 21 healthy volunteers aged 18-40 years - is based on the well-documented substance zolpidem, using Orexo´s sublingual technology involving a tablet placed under the tongue for fast and effective uptake of the active substance over the sublingual mucosa. The result shows that Sublinox™ (OX 22) reduces the time to sleep onset by 30 percent compared to the conventional oral zolpidem tablet.

Unique clinical profile of Orexo product OX 17 confirmed
Study results showing the clinical significance of Orexo´s product OX 17 in the treatment of gastroesophageal reflux disease (GERD) was presented at the Digestive Disease Week (DDW) World Congress in Los Angeles on May 21, 2006. The results confirm that OX 17 combines rapid onset of effect with maintained efficacy during the treatment period.

Annual General Meeting on April 27
Orexo's Annual General Meeting on April 27 decided to adopt a new employee stock option program – see section on stock options in Note 3.

The Annual General Meeting decided to re-elect all Board members and through re-election to appoint Håkan Åström as Chairman of the Board for the period ending with the close of the next Annual General Meeting.

Key events after the close of the period

Orexo launches Phase III studies on Sublinox™ (OX 22) and OX 17
Sublinox™ (OX 22) – Insomnia
Phase I and II studies have been carried out with favorable results, strengthening the medical potential of Sublinox™ (OX 22) – Orexo's drug for the treatment of temporary sleeping disturbances. Sublinox™ (OX 22) has medical potential for on demand treatment of sleep disturbances. The large market for pharmaceutical sleep aids, and its strong growth and the clear niche profile that Sublinox™ (OX 22) has demonstrated, are considered highly advantageous.

Against this background, Orexo is launching a Phase III program during 2006, to document the unique pharmacological profile of Sublinox™ (OX 22) in preparation for registration and out-licensing. The aim of the studies is to document the product's on-demand characteristics of quicker onset action, predictable effect independent of food intake, and to highlight the difference between Sublinox™ (OX22) and other leading insomnia products on the market. The studies will be initiated during the year, and are anticipated to be completed in the first half of 2007.

OX 17 – GERD
Orexo's product OX 17 is based on a new therapeutic concept that combines H2 blockers with proton pump inhibitors. The result is a fast onset of effect after the first dose and maintained efficacy over time. The concept has been tested in a total of four studies and gastric acid secretion has been measured in 45 healthy volunteers. OX 17 is expected to be an attractive alternative for on-demand treatment of GERD and the symptoms caused by the disorder.

The result of clinical studies confirm the unique properties of OX 17 and show that the positive effects can be achieved using different combinations of proton pump inhibitors and H2 blockers. Following verification of the regulatory program required for documenting the claims for OX 17, Orexo will continue with additional clinical Phase II studies and initiate Phase III studies during the second half of 2006.

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 and under the tongue– 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 sleep disorders.

Orexo was founded in Uppsala in 1995, and has grown into an organization with 47 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.

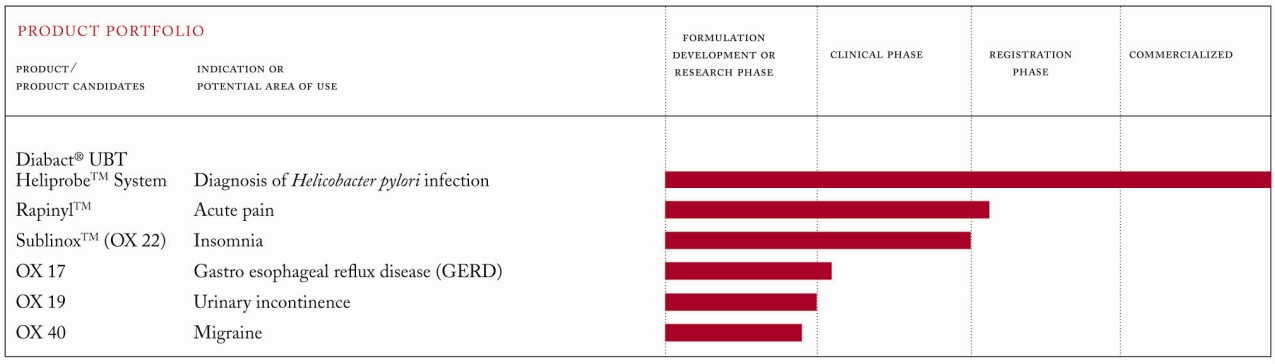
Market for drug delivery

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.

Orexo's product portfolio

Orexo's portfolio consists of two approved and marketed pharmaceuticals, several product candidates in the clinical development phase and projects in formulation development stages, as follows:



Diabact® UBT/Heliprobe™System – Diabact® UBT is Orexo's first commercial product. Like Heliprobe™ System, Diabact® UBT is an exhalation test used to diagnose the presence of *Helicobacter pylori*, the bacteria that cause gastric ulcers. Exhalation tests are recommended by expert groups for *Helicobacter pylori* in Europe as the primary choice and the most reliable non-invasive test to show active infection. Its advantages include the fact that it saves the patient having to undergo a gastroscopy examination, which many consider unpleasant. Among its benefits to society are that it is fast, easy to use and considerably less expensive than gastroscopy.

An estimated total of 260 million people in the Western World are infected with *Helicobacter pylori* bacteria. By diagnosing and treating the infection with antibiotics, gastric ulcer disease can effectively be cured. In recent years, it has also been found that early treatment of *Helicobacter pylori* infection can reduce the risk that the disease will develop into certain forms of stomach cancer.

Distribution and marketing agreements for Diabact® UBT have been signed for the markets in Finland, Hong Kong, Ireland, the UK and Sweden. For the Japanese market, a licensing agreement was signed with Kyowa Hakko Kogyo Co. Ltd. Heliprobe™ System has distribution and marketing agreements in approximately twenty countries in the Middle East, Asia and Eastern Europe.

Rapinyl™ – for the treatment of acute pain is in Phase III (US) and registration phase. Rapinyl™ 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 - combines the properties of fast dissolution, quicker onset of action and predictable effect – on demand properties. Licensing agreements for Rapinyl™ have been signed with Endo Pharmaceuticals for the North American market, ProStrakan Group plc for the European market and Kyowa Hakko for the Japanese market.

In December 2005, Endo Pharmaceuticals launched Phase III studies on Rapinyl. ProStrakan has indicated its intention to file a registration application with the EMEA, during the second half of 2006.

Sublinox™ (OX 22) – for the treatment of sleeping disturbances is entering Phase III development. Sublinox™ (OX 22) is based on Orexo's sublingual tablet technology. In 2005, the insomnia market grew from USD 2.6 billion to USD 3.7 billion and is expected to amount to USD 5.3 billion in 2009 (Datamonitor, Dec. 2005).

Phase I and II studies have been carried out, with favorable results strengthening the medical potential of Sublinox™ (OX 22) for on demand treatment of sleep disturbances. Given the large and growing market size, the strong niche profile that Sublinox™ (OX 22) has demonstrated is considered highly advantageous. Against this background, Orexo is initiating a Phase III program during the year, to document the unique pharmacological profile of Sublinox™ (OX 22) in preparation for registration and out-licensing. The aim of these studies is to document the product's on-demand characteristics of quicker onset of action, predictable effect and the independence of food ingestion, and to highlight the difference between this product and others currently in the market. The studies are expected to be completed in the first half of 2007.

OX 17 – for the treatment of gastroesophageal reflux disorder (GERD), a disease that gives the patient recurrent heartburn, is entering Phase III development. 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 is 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. Clinical studies are ongoing and results were presented as part of the "Digestive Disease Week" at the Los Angeles Conventions Center in Los Angeles, California, in the US on

May 21, 2006. Orexo will during the year initiate a completing Phase III study to demonstrate the unique characteristics of the product and further strengthen its competitiveness.

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. If the ongoing formulation process proceeds according to plan, clinical studies will be initiated.

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

The period in figures: January 1–June 30, 2006

Condensed statement of operations

MSEK	3 months 2006 Apr–Jun	3 months 2005 Apr–Jun	6 months 2006 Jan–Jun	6 months 2005 Jan–Jun	12 months 2005 Jan–Dec
Net sales	**5.1**	**1.7**	**55.4**	**2.9**	**62.4**
Cost of goods sold	(2.1)	(0.9)	(3.2)	(1.5)	(3.0)
Gross profit	**3.1**	**0.8**	**52.3**	**1.4**	**59.4**
Selling expenses	(1.6)	(0.6)	(2.8)	(0.7)	(3.3)
General and administrative expenses	(10.8)	(9.5)	(23.7)	(16.5)	(44.0)
Research and development costs	(17.4)	(16.2)	(38.4)	(28.8)	(67.2)
Other operating income and expenses	0.1	0.0	(0.2)	(0.1)	1.7
Profit from sale of subsidiary	-	8.9	-	8.9	8.9
Operating loss	**(26.6)**	**(16.6)**	**(12.8)**	**(35.8)**	**(44.5)**
Net financial items	2.0	0.2	3.5	0.6	1.3
Tax	-	-	-	-	-
Net loss for the period	**(24.6)**	**(16.4)**	**(9.3)**	**(35.2)**	**(43.2)**

Revenue

Net sales

Consolidated net sales for the period of January–June 2006 amounted to MSEK 55.4 (2.9). The increase over the corresponding period in the preceding year is attributable to the license revenue from ProStrakan, increased sales of Diabact® UBT and sales of Heliprobe™ System – the latter from Noster System AB, acquired in June 2006.

Sales were distributed as follows:

MSEK	Jan–Jun 2006	Jan–Jun 2005	Jan–Dec 2005
Kibion AB	4.7	2.9	5.1
License revenue Rapinyl®	47.9	0.0	51.6
Other revenue	2.8	0.0	5.7
Total	55.4	2.9	62.4

Net sales in April–June were MSEK 5.1 (1.7). The increase is attributable to higher sales of Diabact® UBT and sales of Heliprobe™ System. The latter product was acquired through the purchase of Noster System AB. Consequently, sales are only reported from June 9 on.

Expenses and earnings

Selling expenses

The Group's selling expenses for the period of January–June amounted to MSEK 2.8 (0.7), and for the period of April–June, to MSEK 1.6 (0.6).

The expenses are attributable to sales of Diabact® UBT and Heliprobe™ System, products of the subsidiary Kibion. The increase in selling expenses between the corresponding periods of 2005 and 2006 is an effect of the increased investment in these operations, which included the formation of Kibion AB and the acquisition of Noster System AB.

Administrative expenses

Administrative expenses for the period of January–June 2006 amounted to MSEK 23.7 (16.5). For the period of April–June, administrative expenses were MSEK 10.8 (9.5).

The increase compared to the year-earlier period was attributable to continued expansion of the company's organization and infrastructure – a result, partly, of the stock market listing and partly of the increased market value of the company's shares.

Expenses for the company's employee stock option program
The company's employee stock option program was positively affected during the April–June period with MSEK 0.9 (1.5). The reason for the reduced expenses during the quarter was the lower market value of the company's shares on June 30 compared with March 31, 2006, which in turn reduced the provision for estimated social security fees.

Expenses in January–June 2006 for the employee stock options program amounted to MSEK 4.2 (2.5). Of this amount, MSEK 2.7 (1.6) is attributable to administration-related employees and MSEK 1.5 (0.9) to research and development-related employees.

The program expenses refer to both the estimated cost of the value of the employees' service during the period and the portion of estimated social security fees earned during the period on the value increase. The company will need to pay social security fees on the profit that may result from the exercise of the employee stock option, estimated as the difference between the strike price of the employee stock option and the market value of the share.

The social security fees that may arise on account of the employee stock option program have largely been hedged –financially and, therefore, in cash-flow terms – through the issuance of warrants to one of Orexo's subsidiaries. This hedging does not qualify for hedge reporting in accordance with IFRS.

Research and development costs
Research and development costs for January–June 2006 amounted to MSEK 38.4 (28.8), and for April–June, to MSEK 17.4 (16.2).

The increase over the same periods in the preceding year is attributable to increased investment in the company's product projects, royalty payments as detailed below and increased costs for the company's employee stock option program due to the increased market value of the company's shares.

Research and development expenses include expenses for employees, employee stock options, premises, external costs for clinical trials, drug registration and laboratory services, and depreciation of equipment and amortization of acquired patents and other intangible assets. Orexo has no capitalized research- and development costs. The company has several development projects in advanced phases, including Rapinyl™ for the treatment of acute pain, Sublinox™ (OX 22) for the treatment of sleep disturbances, OX 17 for GERD, OX 19 for the treatment of daytime and nocturnal incontinence in formulation phase, and OX 40 in formulation phase, for acute treatment of moderate to severe migraine.

R&D costs for January–June 2006 include a royalty remuneration of MSEK 4.7 (0.0), which was attributable to Rapinyl™. The royalty remuneration was made on account of a reported initial payment from ProStrakan in the first quarter of 2006. Orexo's total royalty costs attributable to Rapinyl™ cannot exceed 10 percent of the total license revenue for the product, or a maximum of MSEK 30.0, of which MSEK 19.8 has been paid as part of the remuneration mentioned above. Orexo has no agreements that include royalty remuneration for any of the company's other products.

Depreciation/amortization
Depreciation/amortization during January–June 2006 amounted to MSEK 1.5 (1.5), and during April–June, to MSEK 0.8 (0.7).

Tax
Tax expenses during the January–June 2006 period amounted to MSEK 0.0 (0.0).

Net result
The operating loss for the January–June 2006 period amounted to MSEK 12.8 (loss: 35.8). The loss after net financial items amounted to MSEK 9.3 (loss: 35.2) and the loss after tax was MSEK 9.3 (loss:35.2). In a comparison between the periods, revenue increased sharply. At the same time, Orexo, continued to build and strengthened its operations, which led to increased operating expenses.

The operating loss for the April–June period was MSEK 26.6 (loss: 16.6). The loss after net financial items amounted to MSEK 24.6 (loss: 16.4) and the loss after tax was MSEK 24.6 (loss:16.4).. Operating expenses for the April–June period were on a par with the cost levels of the January–March 2006 period.

Financial position
The Group's cash and cash equivalents and current investments at June 30, 2006, totaled MSEK 330.2 (53.5).

Cash flow from operating activities for January–June 2006 was negative in an amount of MSEK 9.3 (neg. 38.6). Cash flow after financing was negative in an amount of MSEK 31.8 (neg. 30.7). During the period, Kibion AB acquired Noster System AB and implemented short-term investments in accordance with the company's finance policy.

Cash flow from operating activities for April–June 2006 was negative in an amount of MSEK 22.5 (neg. 15.9), while cash flow after financing was negative in an amount of MSEK 86.4 (neg. 7.4). During the quarter, short-term investments undertaken amounted to MSEK 53.9 (0.0) and the acquisition of Noster System AB amounted to MSEK 8.2.

Under the Group's finance policy, cash and cash equivalents are defined as the liquid funds required to carry out the company's commercial undertakings. All other cash and cash equivalents are defined as surplus liquidity. At the end of the first half of the year, the Group's surplus liquidity was invested in the following instruments: state and municipalities, banking and real estate (minimum rating A-), structured bonds (minimum rating A-), corporate and institutional (minimum rating BBB) and with maturities of up to April 2007.

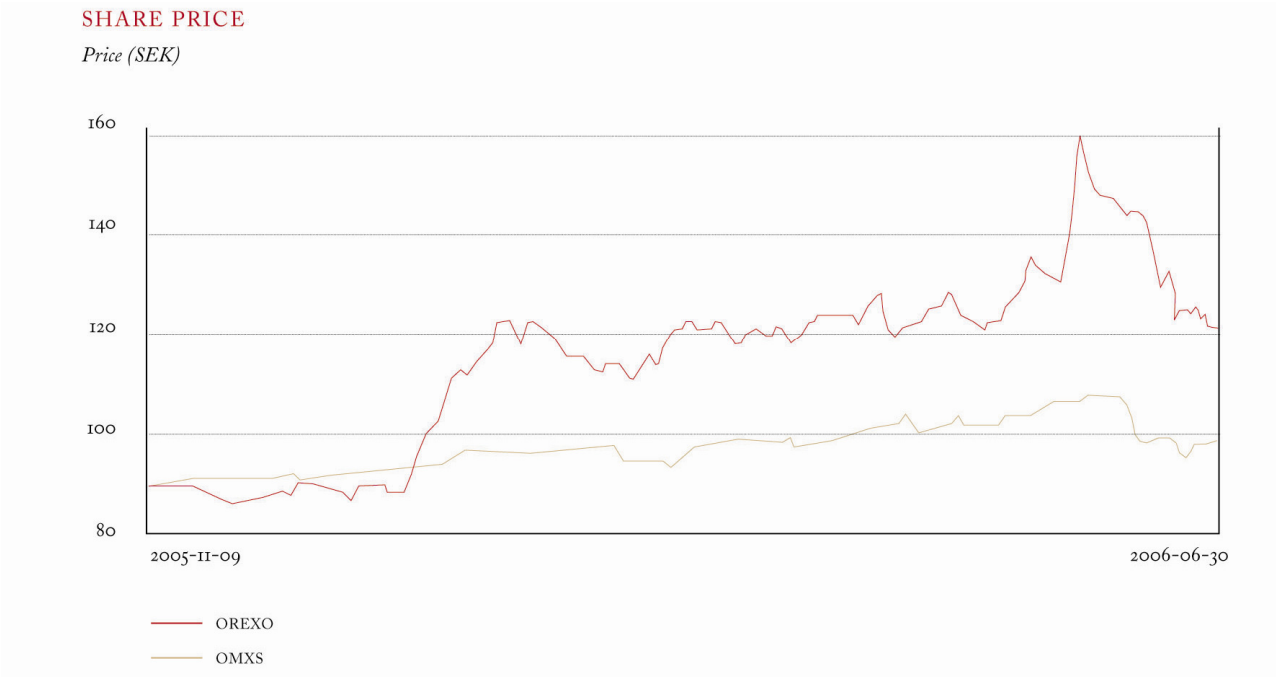
Shareholders' equity amounted to MSEK 332.8 (41.9). The equity/assets ratio was 90 percent (58).

Investments
Gross investments in tangible fixed assets during January–June 2006 amounted to MSEK 2.4 (1.5), and for April–June to MSEK 1.9 (0.8). These investments consist mainly of 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 52.7 (2.9) and the loss after net financial items amounted to MSEK 8.0 (loss 35.2). Investments amounted to MSEK 2.4 (1.5). The Parent Company's cash and cash equivalents and current investments totaled SEK 329.3 (53.5).

Pledged assets and contingent liabilities
The acquisition of Noster System AB involved an agreement on an additional purchase price of not more than MSEK 7.2, which would become payable if the growth of Heliprobe™ System achieves preacquisition sales targets over the next few years. The amount has been reported under contingent liabilities. Otherwise, no significant changes in contingent liabilities or pledged assets occurred during the period.

Share price and Market Cap
Orexo's share were introduced on November 9, 2005, at the price of SEK 90, and traded on June 30, 2006, at SEK 121.50. The company's market capitalization, based on the number of shares outstanding on June 30, 2006, amounted to MSEK 1,615.0.



Analysts who follow Orexo

ABG Sundal Collier	Alexander Lindström and Peter Östling
D. Carnegie AB	Kristofer Liljeberg-Svensson and Camilla Oxhamre
Handelsbanken Markets	Hans Mähler
Redeye	Björn Andersson

Future reporting dates

Interim report July–September 2006 October 18, 2006

Year-end report for fiscal year 2006 not later than February 28, 2007

Uppsala, August 21, 2006

Orexo AB (publ)

Zsolt Lavotha, President

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Review report

We have reviewed the appended interim report for the period January 1 to June 30, 2006 for Orexo AB (publ). The Board of Directors is responsible for the preparation and fair presentation of this interim report in accordance with the Annual Accounts Act and IAS 34. Our responsibility is to express a conclusion on this interim report based on our review.

We conducted our review in accordance with the Standard on Review Engagements SÖG 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by FAR. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing in Sweden RS and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

Based on our review, nothing has come to our attention that causes us to believe that the appended interim report has not in all significant respects been compiled in accordance with the Annual Accounts Act and IAS 34.

Uppsala, August 21, 2006
Öhrlings PricewaterhouseCoopers

Leonard Daun
Authorized Public Accountant

CONSOLIDATED BALANCE SHEETS

(SEK thousands)	Notes	2006 June 30	2005 June 30	2005 Dec 31
ASSETS				
Fixed assets				
Tangible fixed assets		5 080	2 687	3 160
Goodwill		8 988	-	-
Other intangible fixed assets		3 078	3 538	2 553
Financial fixed assets		0	2 405	2 290
Total fixed assets		**17 146**	**8 630**	**8 003**
Current assets				
Inventories		6 589	2 524	3 028
Current receivables		16 676	7 153	10 159
Current investments		101 468	0	89 631
Cash and bank balances		228 691	53 539	260 489
Total current assets		**353 424**	**63 216**	**363 307**
Total assets		**370 570**	**71 846**	**371 310**
SHAREHOLDERS' EQUITY AND LIABILITIES	3			
Share capital		5 317	3 695	5 317
Other reserves		336 688	73 365	376 862
Accumulated losses		(9 196)	(35 198)	(43 270)
Total shareholders' equity		**332 809**	**41 862**	**338 909**
Long-term liabilities				
Provisions		6 370	0	13 783
Deferred tax liability		396	0	0
Total long-term liabilities		**6 766**	**0**	**13 783**
Current liabilities, non-interest-bearing		30 995	29 984	18 618
Total liabilities		**37 761**	**29 984**	**32 401**
Total shareholders' equity and liabilities		**370 570**	**71 846**	**371 310**
Pledged assets		2 500	2 500	2 500
Contingent liabilities		7 250	50	50

CONSOLIDATED STATEMENT OF OPERATIONS

(SEK thousands)	Notes	3 months 2006 April–June	3 months 2005 April–June	6 months 2006 Jan–June	6 months 2005 Jan–June	12 months 2005 Jan–Dec
Net sales		5 128	1 696	55 424	2 926	62 352
Cost of goods sold	2	(2 068)	(918)	(3 170)	(1 542)	(2 954)
Gross profit		**3 060**	**778**	**52 254**	**1 384**	**59 398**
Selling expenses	2	(1 584)	(565)	(2 781)	(656)	(3 303)
General and administrative expenses	2	(10 806)	(9 450)	(23 723)	(16 516)	(44 030)
Research and development costs	2	(17 394)	(16 185)	(38 373)	(28 813)	(67 231)
Other operating income		431	44	478	62	1 927
Other operating expenses	2	(270)	(92)	(675)	(116)	(186)
Profit from sale of subsidiary		0	8 865	0	8 865	8 865
Operating loss		**(26 563)**	**(16 605)**	**(12 820)**	**(35 790)**	**(44 560)**
Earnings from financial investments						
Interest income and similar items		1 898	219	3 433	562	1 433
Interest expenses and similar items		(28)	(4)	(30)	(4)	(7)
Write-down of promissory note receivables		108	0	115	0	(115)
Total result of financial investments		**1 978**	**215**	**3 518**	**558**	**1 311**
Tax on the year´s income		0	0	0	0	0
Net loss		**(24 585)**	**(16 390)**	**(9 302)**	**(35 232)**	**(43 249)**
Loss per share, before dilution, SEK		(1.85)	(1.77)	(0.70)	(3.81)	(4.33)
Loss per share, after dilution, SEK		(1.85)	(1.77)	(0.70)	(3.81)	(4.33)
Average number of shares, before dilution		13 292 500	9 238 000	13 292 500	9 238 000	9 995 896
Average number of shares, after dilution		14 127 695	10 004 001	14 127 695	10 004 001	10 910 896
Number of shares, before dilution		13 292 500	9 238 000	13 292 500	9 238 000	13 292 500
Number of shares, after dilution		14 127 695	10 004 001	14 127 695	10 004 001	14 207 500

CONSOLIDATED CASH-FLOW STATEMENTS

(SEK thousands)	Notes	3 months 2006 April–June	3 months 2005 April–June	6 months 2006 Jan–June	6 months 2005 Jan–June	12 months 2005 Jan–Dec
Continuing operations						
Loss before interest expense and interest income		(26 563)	(16 605)	(12 820)	(35 790)	(44 560)
Interest paid		(28)	(4)	(30)	(4)	(7)
Interest received		1 898	220	3 433	562	1 433
Adjustment for items not affecting cash flow	4	353	(6 504)	6 167	(4 766)	6 603
Cash flow from operating activities before changes in working capital		**(24 340)**	**(22 893)**	**(3 250)**	**(39 998)**	**(36 531)**
Cash flow from changes in working capital						
Change in accounts receivable		(3 809)	(179)	(4 202)	(15)	(297)
Change in other current receivables		3 373	111	(2 315)	(333)	(3 057)
Change in inventories		(2 335)	(591)	(3 561)	(1 105)	(1 609)
Change in current liabilities		4 554	7 635	11 012	2 877	(16 245)
Change in long-term liabilities		93	0	(7 017)	0	13 783
Cash flow from operating activities		**(22 464)**	**(15 917)**	**(9 333)**	**(38 574)**	**(43 956)**
Investment activities						
Proceeds from sale of subsidiary		0	9 405	0	9 405	9 405
Acquisition of machinery and equipment		(1 869)	(839)	(2 433)	(1 532)	(2 465)
Investing in short-term investments		(53 868)	0	(11 837)	0	(89 631)
Acquisition of subsidiary		(8 195)	0	(8 195)	0	
Total cash flow after investment activities		**(86 396)**	**(7 351)**	**(31 798)**	**(30 701)**	**(126 647)**
Financing activities						
Proceeds from new share issue		0	0	0	0	302 896
Cash flow after financing activities		**(86 396)**	**(7 351)**	**(31 798)**	**(30 701)**	**176 249**
Cash flow for the year						
Liquid funds, at the beginning of the period		315 087	60 890	260 489	84 240	84 240
Change in liquid funds		(86 396)	(7 351)	(31 798)	(30 701)	176 249
Liquid funds, at end of period		**228 691**	**53 539**	**228 691**	**53 539**	**260 489**

KEY FIGURES

(SEK thousands)	3 months 2006 April–June	3 months 2005 April–June	6 months 2006 Jan–June	6 months 2005 Jan–June	12 months 2005 Jan–Dec
Operating margin, %	(518)	(979)	(23)	(1 223)	(71)
Profit margin, %	(479)	(966)	(17)	(1 204)	(69)
Return on total capital, %	(7)	(21)	(2)	(41)	(34)
Return on shareholders' equity, %	(7)	(33)	(3)	(60)	(43)
Return on capital employed, %	(7)	(33)	(3)	(60)	(43)
Debt/equity ratio, multiple	0	0	0	0	0
Equity/assets ratio, %	90	58	90	58	91
Current ratio, %	1 140	211	1 140	211	1 951
Acid test ratio, %	1 119	202	1 119	202	1 935
Average number of shares, before dilution	13 292 500	9 238 000	13 292 500	9 238 000	9 995 896
Average number of shares, after dilution	14 127 695	10 004 001	14 127 695	10 004 001	10 910 896
Number of shares after full dilution	14 562 050	10 213 000	14 434 000	10 213 000	14 578 500
Number of shares, before dilution	13 292 500	9 238 000	13 292 500	9 238 000	13 292 500
Number of shares, after dilution	14 127 695	10 004 001	14 127 695	10 004 001	14 207 500
Loss per share, before dilution, SEK	(1.85)	(1.77)	(0.70)	(3.81)	(4.33)
Loss per share, after dilution, SEK	(1.85)	(1.77)	(0.70)	(3.81)	(4.33)
Shareholders' equity per share, before dilution, SEK	25.04	4.53	25.04	4.53	25.50
Shareholders' equity per share, after dilution, SEK	23.56	4.18	23.56	4.18	23.85
Number of employees at the end of the period	47	36	47	36	43
Average number of employees	46	34	45	32	37
Shareholders' equity	332 809	41 862	332 809	41 862	338 909
Capital employed	332 809	41 862	332 809	41 862	338 909

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 period as a percentage of average adjusted shareholders' equity.
Return on capital employed: Operating profit/loss plus financial revenues as a percentage of average capital employed.
Capital employed: Average of interest-bearing liabilities and shareholders' equity.
Debt/equity ratio: Interest-bearing liabilities divided by shareholders' equity.
Equity/assets ratio: Shareholders' equity in relation to total assets.
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 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 the dilution from options issued by the company through 2005 was carried out in accordance with IAS 33.
Earnings per share before dilution: Profit/loss divided by the average number of shares outstanding before dilution.
Earnings 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 interim 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. As of 2005, Orexo has applied IFRS as approved by the EU. The accounting principles and calculation methods comply with those applied in preparing the 2005 Annual Report.

The Parent Company's accounting was prepared in accordance with RR32.

In other respects, the accounting principles applied in this interim report are described in greater detail in the notes to the 2005 Annual Report.

The amounts below are in SEK thousands unless otherwise indicated.

2. Costs distributed by type of cost

	2006 Apr–Jun	**2005 Apr–Jun**	**2006 Jan–Jun**	**2005 Jan–Jun**	**2005 Jan–Dec**
Raw materials and supplies	2 563	1 409	4 641	2 650	5 053
Other external costs	14 442	12 760	31 797	23 211	59 301
Personnel costs	14 338	12 319	30 762	20 328	50 451
Depreciation and write-downs	779	722	1 522	1 454	2 899
TOTAL	**32 122**	**27 210**	**68 722**	**47 643**	**117 704**

3. Shareholders' equity

Changes in consolidated shareholders' equity

	2006 Apr–Jun	**2005 Apr–Jun**	**2006 Jan–Jun**	**2005 Jan–Jun**	**2005 Jan–Dec**
Shareholders' equity brought forward according to balance sheet	**355 612**	**57 181**	**338 909**	**75 094**	**75 094**
Loss for the period	(24 585)	(16 390)	(9 302)	(35 232)	(43 249)
Issuance of units	0	0	0	0	134
Subscription for shares through the exercise of warrants	0	0	0	0	819
New share issue	0	0	0	0	333 000
Employees stock options, value of employees' service	1 421	1 071	2 841	2 000	3 572
Recovered VAT on issuance expenses	361	0	361	0	(30 461)
Amount of close of period	**332 809**	**41 862**	**332 809**	**41 862**	**338 909**

Shares outstanding
The number of shares outstanding at June 30, 2006, was 13,292,500, all of which were common shares. All shares carry entitlement to one vote each. There has been no change in the number of shares since December 31, 2005.

Employee stock options and warrants
The total number of subscription-entitling options outstanding at June 30, 2006, corresponded to 1,269,550 shares in Orexo[3]. The following table shows changes in the number of options during the January–June 2006 period.

	Opening 1/1 2006	-	+	Closing 30/6 2006
Total number of stock options and warrants	**1 286 000**	**(257 550)**	**241 100**	**1 269 550**
Of which				
Decided and allotted				
- employee stock options	490 750	(5 000)	108 050	593 800
- warrants	356 000	-	-	356 000
Warrants held by subsidiary for cash-flow hedging of social security fees	264 250	(144 500)	-	119 750
Decided, but not allotted, employee stock options for 2005 and 2006	175 000	(108 050)	133 050	200 000

In February 2006, options were allotted for a total of 108,050 shares distributed as 34,000 shares to other senior employees and 74,050 to other employees. The President was not allotted any options under this program. The subscription price was SEK 113 per share and the expiration on the options is up to and including December 31, 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 December 31, 2005. The market value at the time of issue, calculated using the Black & Scholes method, was SEK 32.62 per option (adjusted for the 1:250 share split).

Orexo's Annual General Meeting on April 27 voted to adopt a new employee option program for the issuance of warrants and to approve vesting of the authority over the warrants in the framework of the employee stock option program. The employee stock option program involves 200,000 employee stock options. Every employee stock option can be used to acquire one share in Orexo, against payment of a redemption amount established as the market value of Orexo shares at the time of the allotment. A total of 133,050 warrants will be issued to the wholly owned subsidiary, Pharmacall AB, as hedging for the program. Full exercise of the employee stock options would lead to a dilution of approximately 0.9 percent of the share capital and the voting rights in the company. As of June 30, 2006, no allotment from this program has occurred.

During the period, the Board decided to cancel options corresponding to 149,500 shares, reducing the dilution by approximately 1 percentage point. Of these options, 144,500 were intended for cash flow hedging of social security fees. The company considers its hedging to be sufficient even without access to these options. The other 5,000 cancelled options referred to older options that had not been allotted, and these had expired and can therefore not be exercised.

4. Cash flow

Adjustment for items not included in cash flow

	2006 Apr–June	2005 Apr–June	2006 Jan–June	2005 Jan–June	2005 Jan–Dec
Depreciation/amortization and impairments	780	722	1 523	1 454	2 899
Calculated costs for employee stock option program	(865)	1 526	4 206	2 532	12 456
Customer losses	193	113	193	113	113
Profit from sale of subsidiary	0	(8 865)	0	(8 865)	(8 865)
Recovered VAT on issuance expenses	361	0	361		
Miscellaneous	(116)	0	(116)		
Total	**353**	**(6 504)**	**6 167**	**(4 766)**	**6 603**

[3]) All data is adjusted for the 1:250 share split carried out in November 2005. As shown in the 2005 Annual Report, each old option carries rights to subscribe for 250 shares after the split. The above information pertains in all respects to the number of shares each option is entitled to subscribe.

5. Acquisition of Noster System AB

On June 9, Kibion AB attained decisive influence and thereby control over the acquired company Noster System AB. The company was consolidated in the Orexo Group on the same date.

The acquired operations contributed net sales of MSEK 1.0 and a net loss MSEK 0.3 for the period June 9 through June 30, 2006. If the acquisition had occurred in January 1, 2006, the Group's net sales would amount to MSEK 61.8 and the net result for the period to a loss of MSEK 10.2.

At June 30, shareholders in Noster System AB corresponding to 100% of the votes and 100% of the capital had accepted the offer.

The acquisition was financed with funds from Kibion AB's parent company Orexo AB.

The acquisition value amounted to MSEK 10.6. Calculation of the value is based on the expenditures related to the acquisition.

Acquired net assets and goodwill (MSEK)**:**

Cash purchase consideration	8.1
Purchase consideration paid through offset	2.4
Direct expenses in conjunction with the acquisition	0.1
Total purchase consideration	**10.6**
Fair value for acquired assets	(1.6)
Goodwill	**9.0**

Goodwill is attributable to the profitability of the acquired operations and the acquisition of an established sales and marketing organization as well as production and distribution know-how.

The assets and liabilities included were as follows (MSEK):

	Fair value	Acquired book value
Intangible fixed assets	1.5	0.1
Inventories	0.3	0.3
Current receivables	5.2	5.2
Long-term liabilities	(2.0)	(2.0)
Current liabilities	(3.0)	(3.0)
Deferred tax liabilities	(0.4)	(0.4)
Acquired net assets	**1.6**	**0.2**

Expenditures in conjunction with the acquisition (MSEK):

Cash purchase consideration	(8.1)
Expenses	(0.1)
Cash and cash equivalents in acquired company	0.0
Change in Group cash and cash equivalents	**(8.2)**

Consolidated surplus value (MSEK)
In the acquisition of Noster System AB intangible assets were identified in the form of patented technology totaling MSEK 1.4. The remaining difference between the purchase price and the fair value of the acquired net assets is recognized as goodwill, which at June 30, 2006 amounted to MSEK 9.0.

Consolidated surplus value at June 30, 2006:

Intellectual property rights	1.4
Goodwill	9.0
Total	**10.4**

The estimated useful life of intangible assets is five years.

Acquisition included a contractual agreement for a maximum supplemental payment of MSEK 7.2, which becomes payable under the condition that the product Heliprobe™ System achieves set sales goals in the years immediately ahead.