



Affibody AB

Corporate Registration Number 556560-8220

Annual Report 2005

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Annual report for the fiscal year January 1 - December 31, 2005

The board of directors and the Chief Executive Officer of Affibody AB hereby submit the annual report as follows.

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Directors' Report

Operations in summary

Affibody's vision is to be a leading player in the emerging field of personalized medicine within oncology, and a preferred partner and provider of high quality biotechnology products.

Affibody uses innovative protein-engineering technologies for the development of affinity ligands. A key component of Affibody's technology is the Affibody® molecules, small robust proteins which can be designed to bind to any target protein. The physical characteristics of Affibody® molecules, including small size, specific target recognition, ease of production and high stability in a wide range of conditions, give them valuable advantages over other affinity ligand technologies.

Based on its proprietary technology platform, Affibody is developing a unique oncology pipeline, covering the entire value chain from research reagents to molecular imaging agents and targeted therapeutics. Current commercial partners include Agilent Technologies, Astra Tech, GE Healthcare, Asahi Kasei and Finnzymes. Funakoshi is promoting and distributing Affibody's biotechnology products on the Japanese market. In March 2006, Affibody entered into a global distribution agreement with Abcam. In addition, Affibody's proprietary Albumin-Binding technology, which allows for prolonging the half-life of biologicals as well as evading immune response, is commercialized through out-licensing.

Affibody is made up of two divisions, Personalized Medicine (previously "Biotherapy") which includes the business areas molecular imaging and targeted therapeutics, and Biotechnology which includes collaborations regarding and sales of research reagents. The company conducts its operations in leased premises at Voltavägen 13 in Bromma, Sweden.

Status report and significant events during the year

Personalized Medicine

The characteristics of the Affibody® molecules make them ideal for molecular imaging, e.g. within the oncology field to identify cancer tumors and metastases and to monitor treatment. The development time for an imaging agent in oncology is short since the picture is the outcome, and the development risk and cost are low. The same Affibody® molecule, with proven tumor receptor specificity as demonstrated by imaging, can be utilized for targeted therapeutics by directing a toxin or a therapeutic radionuclide to the tumor. Late 2005, the forefront molecular imaging project entered into clinical studies and an Affibody molecule was administered into human for the first time.

Affibody receives research funding from VINNOVA for a collaboration project with Uppsala University and the Royal Institute of Technology, aiming to develop Affibody® molecules that target tumor markers.

Immobilized Affibody® molecules can be used in apheresis medical devices to purify blood from undesired proteins. Affibody has since 2004 an apheresis collaboration with the company Astra Tech. In September 2005, Affibody and Japanese Asahi Kasei Corporation entered into an apheresis related research collaboration that also includes a possible out-licensing of Affibody® molecules. Apheresis related projects were part of the Personalized Medicine division 2005, but has been moved to the Biotechnology division as from January 1st 2006.

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Biotechnology

Affibody® molecules are also commercialized for various biotechnology applications, such as affinity separation and protein detection methods. Affibody's first biotechnology product on the market was launched in December 2004 by the commercial partner GE Healthcare, under the brand name MabSelect SuRe™. In February 2005, the company launched an e-commerce portal where several biotechnology products were marketed at year-end. During the 3rd quarter of 2005, Affibody concluded an agreement with Funakoshi for the distribution of Affibody's biotechnology products on the Japanese market. In March 2006, Affibody signed a distribution agreement with Abcam covering the rest of the world.

Commercial Agreements within Biotechnology

GE Healthcare

Royalty payments from the large-scale bioseparation product MabSelect SuRe™, launched in December 2004, are adding to the revenue stream from the 2nd quarter of 2005. The project is progressing according to plan. Research funding will continue until mid-2006.

Agilent Technologies

Affibody and Agilent Technologies have a cooperative agreement regarding development of a number of affinity ligands. The aim is to use these in sample preparation products for removal of high abundant blood proteins, to facilitate analysis of less abundant proteins in plasma. The agreement contains research payments, license fees and supply of a committed minimum order quantity.

EU Project MolPAGE

Affibody receives research funding until October 2008 for participating in an EU research program with the aim to develop new tools in the area of sample preparation before protein analysis.

Finnzymes

The collaboration with Finnzymes Oy was initiated in 2004. The aim is to develop Affibody® molecules for use in Finnzymes' HotStart PCR kits. At launch of product, Affibody receives a milestone payment and thereafter royalties on sales. Finnzymes launched a product with an Affibody® molecule inside in March 2006.

Mabtech

Under the agreement initiated in 2004, Affibody provides Mabtech with Affibody® molecules binding to the proteins of interest. Mabtech will develop and commercialize diagnostic kits for the research diagnostics market. Affibody is eligible for royalty payments from the sales of these products. Mabtech has evaluated a number of Affibody® candidates during 2005.

Internal research and development projects

Microbead Display Selection technology

The Microbead Display Selection technology is a solid-phase *in vitro* selection system with one granted patent in the US and several pending patents. Proof-of-principle was reached in 2005. This novel selection method has the potential to replace and supersede phage display as a method for the selection of Affibody® molecules.

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Business Development

During 2005, Affibody participated in several business seminars and events, e.g. BIO 2005 in Philadelphia in June, Biotech Forum Stockholm in October and the Swedish Bio Business Delegation in the US in October, coordinated by SwedenBIO and Invest in Sweden Agency.

Public Relations & Investor Relations

Affibody published four press releases 2005. A joint press release regarding the second collaboration agreement with Agilent was published in August. In October, Affibody published a press release regarding the agreement with Funakoshi for the distribution of Affibody's biotechnology products on the Japanese market. During November, a joint press release regarding the collaboration with Asahi Kasei and also a press release regarding the collaboration with NIH were published. The press releases were well received and rendered positive publicity for the company.

Affibody has during 2005 presented at events such as the Swedish American Life Science Summit in Stockholm in August and Sachs Associates' Annual Biotech in Europe Investor Forum in Zurich in October.

Intellectual Property Rights (IPR)

Affibody pursues a proactive strategy for the protection of its IPR. Affibody's patents do not overlap with conventional aptamer, monoclonal and domain antibody patents. Affibody's IPR strategy aims at protecting IP through patents and trademarks, at generating revenue via out-licensing, to gain access to useful technology through in-licensing, to use available patent information for business intelligence, and to enforce Affibody's IPR against infringing activities. The company applies for composition of matter patents for selected new Affibody® molecules.

During 2005, Affibody has filed four new patent applications each covering a family of Affibody® molecules binding a specific target. Three patents were granted, including an application on the Microbead Display Selection technology. At year-end 2005, Affibody's patent portfolio encompasses 19 patent families; comprising 26 granted or approved applications, and more than 60 pending applications.

Organization

As from January 1st 2005, Affibody's operation is divided into two divisions; Personalized Medicine and Biotechnology. As of December 31, 2005, Affibody had 50 employees whereof 46 on duty. Of these, 38 were engaged in research and development while eight were involved in administration and business development. For 2005, the average number of employees was 57.

In the 2nd quarter, a cost reduction program was initiated and the company refocused to a limited number of selected projects and business efforts. As a result, 13 FTE positions were made redundant.

During the year there were major changes in the management of the company. The board was reduced to five directors and Håkan Mogren was replaced with Karl Swartling as chairman of the board. In August, Mårten Österlund, SVP Business Development, left the company. At the end of November, CEO Torben Jørgensen was replaced by Carl-Johan Dalsgaard, also Venture Partner of Affibody's largest shareholder HealthCap. In April, Erika Johnson joined as CFO, replacing Eola Änggård-Runsten. In December 2005, Ulf Boberg was recruited as SVP Development.

Future outlook

The cash and bank at hand is estimated to fund the company with its planned activities until mid-June 2006. Two of the company's major shareholders provided the company with a bridge loan in December 2005. Currently the company is seeking a new round of financing and the board of directors is confident that such financing will be successfully closed. The company is gaining a strong interest from the financial market as well as the industry.

The promising research results are leading into product development. The company has already launched direct sales and concluded distribution agreements for its biotechnology products. The company's first commercial collaborations have started to yield a royalty stream and further products are expected to be launched by the company's partners during 2006. Affibody expects to sign new commercial collaboration agreements during 2006 and a continued build-up of the research reagents product portfolio. From year 2007, Affibody expects to launch one molecular imaging agent per year and file one targeted therapeutics IND every second year. Affibody continues to work actively to pursue ongoing discussions as well as to initiate contacts with potential partnering companies and customers.

Significant events post end of fiscal year 2005

The company has prepared a special balance sheet (Sw. Kontrollbalansräkning) as of March 31, 2006. This balance sheet shows that share capital of the company is intact. The company's most valuable assets are its IPR. The business is built up around a comprehensive patent portfolio and know-how. Given the prospects of successful financing and the business opportunities at hand, the board of directors is confident that Affibody will continue the build up of a profitable and sustainable business based on these assets. Adjustments have been made to show off balance sheet values regarding the company's IPR.

Following the end of year 2005, Affibody has signed two term sheets regarding collaboration and license agreements. Both of these agreements are in final contract negotiations and estimated to be concluded prior to the end of the second quarter. The first agreement concerns the field of molecular imaging and the second agreement is within the biotechnology area. Affibody has also entered into an evaluation agreement with one of the major pharmaceutical companies regarding the use of Affibody® molecule within drug development.

Financial results for the group

Group net sales for the fiscal year 2005 amounted to SEK 13.0 (10.9) million. Research payments and upfront payments from commercial partners accounted for the main part.

Total operating expenses for 2005 were SEK 80.7 (81.5) million. Depreciation amounted to SEK 7.6 (9.3) million for the year. The reason for lower depreciation expenses than last year is that the cash financed investments are becoming fully written-off, while newer investments have mainly been financed through a leasing facility.

The operating loss for 2005 was SEK 67.7 (70.6) million. Net financial income for 2005 was SEK 0.9 (1.8) million. The main part of the liquid funds has been invested in fixed income funds. Net financial income decreased compared to last years since Affibody has less liquid assets that generate interest. Net loss for 2005 amounted to SEK 66.8 (68.8) million.

Cash flow from operating activities was SEK -60.7 (-72.0) million. Investments in laboratory and office equipment have mainly been financed via a designated leasing facility. Leases are

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recalculated as financial leases in the group income statements and balance sheets whereas the cash flow statement shows only cash financed investments of SEK 0.3 (-0.3) million.

In December, Affibody received a bridge loan of SEK 25 million from two of the principal shareholders. Net cash flow excluding the bridge funding amounted to SEK -61.0 (-71.5) million. As of December 31, cash and short-term investments amounted to SEK 45.4 (81.3) million.

Financial results for the parent company

The parent company Affibody AB reports the same net sales as the group for 2005, SEK 13.0 (10.9) million. Net loss for the parent company was SEK 66.8 (68.7) million. Investments in the parent company amounted to SEK 0.3(-0.3) million.

Shareholders' equity

No new shares were issued during 2005. The group's registered share capital remained at SEK 4 615 878.80 distributed on 23 079 394 shares. Total shareholders' equity as of December 31, 2005, amounted to SEK 16.2 (83.1) million.

No warrants or stock options have been issued during the year. Warrants representing in total 2 155 523 shares for exercise 2005 were not exercised and have expired. At the end of 2005, warrants and stock options representing 2 939 116 shares were outstanding, of which 1 507 102 are owned by Affibody AB and Affibody Incentive for incentive scheme purposes.

Board of directors

Affibody's board has six directors and five alternates. Of these, one director and one alternate are appointed to the board as labor representatives. During 2005, 12 board meetings were held.

Affibody has a compensation committee consisting of three board members. The compensation committee recommends and prepares board decisions regarding remuneration to the CEO and executive management as well as the terms and conditions for the company's incentive programs.

Affibody also has an audit committee with three members from the board. The audit committee prepares the board's review of the group accounts, accounting principles and financial position. The audit committee also acts as the board's speaking partner to the auditors and reviews the work and remuneration. The audit committee has convened once during the year and the auditors participated in parts of this meeting.

Proposed allocation of losses

The parent company

The accumulated loss in Affibody AB from previous year amounts to SEK 0 after losses from previous years have been covered by the share premium reserve. The loss for 2005 amounts to SEK 66 848 985.

The board and the CEO propose that the year's loss of SEK 66 848 985 should be covered by the statutory reserve.

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Five-year overview

The group was established in 2001 through the formation of the subsidiary Affibody Incentive AB and the acquisition of Visual Bioinformatics AB. Visual Bioinformatics was liquidated in 2003. In 2005 the subsidiary Affibody Biotechnology AB was acquired. At the time of the acquisition this subsidiary was a dormant company and no operations have been conducted within it during the year.

(KSEK)	The group					Parent company				
	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005
Income statements										
Net sales	4 727	23 510	7 936	10 883	13 011	4 652	23 510	7 951	10 883	13 011
Total operating expenses	-52 545	-89 191	-87 754	-81 482	-80 727	-40 538	-72 431	-103 057	-82 200	-81 475
Loss after financial items	-45 846	-74 235	-75 274	-68 775	-66 814	-44 234	-60 975	-89 696	-68 679	-66 849
Balance sheets										
Cash and cash equivalents	137 982	212 588	152 859	81 338	45 375	137 765	212 225	152 616	81 092	45 024
Total assets	183 711	258 268	184 544	109 581	65 150	183 947	273 937	173 816	98 954	56 913
Equity	152 197	226 814	151 690	83 063	16 249	153 808	241 857	152 162	83 630	16 781
Cash flow statements										
Cash flow from operating activities	-30 789	-59 695	-58 334	-72 006	-60 696	-35 620	-35 644	-70 821	-72 010	-60 700
Key ratios										
Equity ratio, %	83%	88%	82%	76%	25%	84%	88%	88%	85%	29%
Average no. of employees	20	60	62	60	57	16	52	62	60	57
Of which engaged in R&D	20	51	53	51	45	14	43	53	51	45
Loss per average no. of shares, SEK	-3,57	-3,83	-3,26	-2,98	-2,89	-3,45	-3,14	-3,89	-2,98	-2,90
Equity per share, year end, SEK	8,79	9,83	6,57	3,60	0,70	8,89	10,48	6,59	3,62	0,73
Average number of shares '000	12 839	19 397	23 079	23 079	23 079	12 839	19 397	23 079	23 079	23 079
- ditto, fully diluted*	15 503	22 945	26 926	27 677	26 019	15 303	22 945	26 926	27 677	26 019
Number of shares, year-end	17 310	23 079	23 079	23 079	23 079	17 310	23 079	23 079	23 079	23 079
- ditto, fully diluted*	20 235	26 674	27 174	28 174	26 019	20 235	26 674	27 174	28 174	26 019

Cash flow from operating activities - Cash from operations including changes in working capital

Solidity - Equity in relation to the balance sheet total

Loss per share - Loss in relation to the average number of shares

Equity per share - Shareholders' equity at year-end in relation to outstanding shares at year-end

Average number of shares - Weighted average number of shares outstanding during the year

Ditto, fully diluted - Weighted average number of shares and warrants outstanding during the year

Number of shares, year-end - Number of shares outstanding at the end of the year

Ditto, fully diluted - Total number of shares and warrants outstanding at the end of the year

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Share capital

Development of the share capital

The registered share capital amounts to SEK 4 615 878.80 and consists of 23 079 394 shares. Affibody has issued five different classes of shares; common shares and preference shares of class P1, P2, P3 and P4. The preference shares carry varying preferential rights in case of liquidation and dividends.

Common shares and preference shares carry one vote per share.

Transaction	Quote	Change in						Number of	Warrants
	value	share capital	A	P1	P2	P3	P4	shares	and
									options
1998									
Incorporation	1	100 000	100 000					100 000	
1999									
Share issue	1	7 000	7 000					7 000	
2000									
Share & warrant issue	1	11 900		11 900				11 900	22 000
Share & warrant issue	1	79 604			79 604			79 604	15 075
Warrants									8 000
2001									
Share split 5:1			428 000	47 600	318 416			794 016	180 300
Bonus issue 9:1		1 786 536	4 815 000	535 500	3 582 180			8 932 680	2 028 375
Non-cash issue	0,2	323 146	1 247 733			367 999		1 615 732	366 889
Share issue	0,2	1 153 846					5 769 231	5 769 231	
Warrants									304 000
2002									
Warrants									670 000
Share issue	0,2	1 153 846					5 769 231	5 769 231	
2003									
Stock options									500 000
2004									
Stock options									1 000 000
2005									
Warrants expired									-2 155 523
Total Dec 31, 2005		4 615 879	6 597 733	595 000	3 980 200	367 999	11 538 462	23 079 394	2 939 116

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Warrants and stock options

The number of outstanding warrants is summarized in the table below.

	Warrants T2 2000	Warrants T3 2001	Warrants T3 2002	Stock options PO 2003	Stock option PO 2004	Total no. of warrants & options	Total %
Strike price	20.20	52.00	52.00	1.00	1.00		
Exercise period until	dec-07	dec-08	feb-09	maj-13	dec-14		
Founders	15 135		87 500			102 635	3,5%
HealthCap	10 407					10 407	0,4%
Investor Investments Novare Ltd						0	0,0%
SV Life Sciences						0	0,0%
International Biotechnology Trust*						0	0,0%
Employees	100 000	154 000	582 500			836 500	28,5%
Others	339 574	150 000		500 000	1 000 000	1 989 574	67,6%
Total	465 116	304 000	670 000	500 000	1 000 000	2 939 116	100%

* Advised by SV Life Sciences

Ownership structure

Affibody AB is a privately held company. The key shareholders and their shareholdings as of December 31, 2005, are shown in the table below.

	A	P1	P2	P3	P4	Number of shares	%
Founders	6 145 240					6 145 240	26,6%
HealthCap	281 973	595 000	2 000 000	367 999	3 846 154	7 091 126	30,7%
Investor Investments Novare Ltd			1 980 200		1 923 076	3 903 276	16,9%
SV Life Sciences					3 076 924	3 076 924	13,3%
International Biotechnology Trust*					1 538 462	1 538 462	6,7%
Others	170 520				1 153 846	1 324 366	5,8%
Total	6 597 733	595 000	3 980 200	367 999	11 538 462	23 079 394	100%

* Advised by SV Life Sciences

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Income statements

KSEK	Note	The group		Parent company	
		2005-01-01 2005-12-31	2004-01-01 2004-12-31	2005-01-01 2005-12-31	2004-01-01 2004-01-31
Net sales	1	13 011	10 883	13 011	10 883
		13 011	10 883	13 011	10 883
Operating expenses	2-9				
Marketing and sales expenses		-5 637	-2 950	-5 637	-2 950
Administrative expenses		-20 147	-15 290	-20 155	-15 307
Research and development expenses		-54 942	-63 242	-55 683	-63 943
Total operating expenses		-80 727	-81 482	-81 475	-82 200
Operating profit / loss		-67 716	-70 599	-68 465	-71 317
Result from financial investments					
Interest income		1 789	2 695	1 786	2 690
Interest expense		-887	-870	-170	-52
		902	1 824	1 616	2 638
Profit / loss after financial items		-66 814	-68 775	-66 849	-68 679
Corporate income tax	10	-	-	-	-
Profit / loss for the year		-66 814	-68 775	-66 849	-68 679
Earnings per share (EPS)					
Average no. of shares outstanding, '000		23 079	23 079	23 079	23 079
Corresponding EPS, SEK		-2,89	-2,98	-2,90	-2,98
Average no. of shares fully diluted, '000		26 019	27 677	26 019	27 677
Corresponding EPS, SEK*		-2,89	-2,98	-2,90	-2,98
Proposed dividend per share		-	-	-	-

* Warrants do not dilute EPS since exercise of warrants would improve EPS

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Balance sheets

Assets, KSEK	Note	The group		Parent company	
		2005-12-31	2004-12-31	2005-12-31	2004-12-31
Fixed assets					
<i>Intangible assets</i>					
Patents and license rights	8	-	2 714	-	2 714
		<u>0</u>	<u>2 714</u>	<u>0</u>	<u>2 714</u>
<i>Tangible assets</i>					
Leasehold improvements	9	4 215	4 770	4 215	4 770
Office and IT-equipment		453	1 062	110	211
Laboratory equipment		8 551	11 179	637	1 380
		<u>13 219</u>	<u>17 011</u>	<u>4 962</u>	<u>6 361</u>
<i>Financial assets</i>					
Participation in group companies	11	-	-	200	100
Participation in other companies		14	14	14	14
		<u>14</u>	<u>14</u>	<u>214</u>	<u>114</u>
Total fixed assets		13 234	19 739	5 176	9 189
Current assets					
<i>Current receivables</i>					
Accounts receivable - trade		150	205	150	205
Receivables from group companies		-	-	171	169
Other receivables		2 406	2 546	2 406	2 546
Prepaid expenses and accrued income	12	3 985	5 753	3 985	5 753
		<u>6 541</u>	<u>8 504</u>	<u>6 713</u>	<u>8 673</u>
<i>Short-term investments</i>					
Other short-term investments	13	8 888	68 206	8 888	68 206
		<u>8 888</u>	<u>68 206</u>	<u>8 888</u>	<u>68 206</u>
<i>Cash and bank balances</i>		<u>36 487</u>	<u>13 132</u>	<u>36 136</u>	<u>12 886</u>
Total current assets		51 916	89 842	51 737	89 765
Total assets		65 150	109 581	56 913	98 954

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Equity and liabilities, KSEK	Note	The group		Parent company	
		2005-12-31	2004-12-31	2005-12-31	2004-12-31
Equity	16				
<i>Restricted equity</i>					
Share capital		4 616	4 616	4 616	4 616
Restricted reserves/share premium reserve		78 994	147 673	79 014	147 693
		83 610	152 289	83 630	152 309
<i>Non-restricted equity</i>					
Accumulated deficit		-547	-451	-	-
Loss for the year		-66 814	-68 775	-66 849	-68 679
		-67 361	-69 226	-66 849	-68 679
Total equity		16 249	83 063	16 781	83 630
Provisions	14	1 558	1 600	1 558	1 600
<i>Long-term liabilities</i>					
Financial leasing	15	8 769	11 196	-	-
<i>Current liabilities</i>					
Loan from shareholders	19	25 000	-	25 000	-
Accounts payable - trade		3 511	3 041	3 511	3 041
Other liabilities		1 042	1 799	1 042	1 801
Accrued expenses and deferred income	17	9 022	8 881	9 022	8 881
Total current liabilities		13 574	13 722	13 574	13 724
Total equity and liabilities		65 150	109 581	56 913	98 954
Pledged assets	18	14 257	16 649	14 257	16 649
Contingent liabilities		None	None	None	None

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Change in shareholders' equity

The group

KSEK	Share capital	Statutory reserve	Accumulated deficit	Result for the year	Total
Initial value 2004	4 616	237 220	-14 872	-75 274	151 690
Loss brought forward from 2003			-75 274	75 274	0
Accounting of accumulated deficit		-89 696	89 696		0
Repaid VAT on issue expenses		148			148
Loss for the year 2004				-68 775	-68 775
End of year 2004	4 616	147 672	-450	-68 775	83 063
Loss brought forward from 2004			-68 775	68 775	0
Accounting of accumulated deficit		-68 679	68 679		0
Loss for the year 2005				-66 814	-66 814
End of year 2005	4 616	78 994	-547	-66 814	16 249
<i>Proposed dividend</i>				0	0

Parent company

KSEK	Share capital	Statutory reserve	Share premium reserves	Accumulated deficit	Result for the year	Total
Initial value 2004	4 616		237 242	0	-89 696	152 162
Loss brought forward from 2003				-89 696	89 696	0
Accounting of accumulated deficit			-89 696	89 696		0
Repaid VAT on issue expenses			148			148
Loss for the year 2004					-68 679	-68 679
End of year 2004	4 616		147 694	0	-68 679	83 631
Loss brought forward from 2004				-68 679	68 679	0
Accounting of accumulated deficit			-68 679	68 679		0
Brought from share premium reserves to statutory reserves*		79 015	-79 015			
Loss for the year 2005					-66 849	-66 849
End of year 2005	4 616	79 015	0	0	-66 849	16 782
<i>Proposed dividend</i>					0	0

* In accordance with Swedish general accounting principles, share premium reserve of KSEK 79 015 have been transferred to statutory reserves as per Dec 31, 2005

Cash flow statements

KSEK	Note	The group		Parent company	
		2005-01-01 2005-12-31	2004-01-01 2004-12-31	2005-01-01 2005-12-31	2004-01-01 2004-12-31
Operating activities					
Loss for the year		-66 814	-68 775	-66 849	-68 679
<i>Adjustments for non-cash flow items</i>					
Depreciation		4 380	5 958	4 380	5 958
Other non-cash flow items		-77	562	-42	466
Cash from operating activities before changes in working capital		-62 511	-62 255	-62 511	-62 255
<i>Cash flow from working capital changes</i>					
Change in receivables		55	216	55	216
Change in other current assets		1 908	-3 201	1 906	-3 206
Change in accounts payable		469	-1 966	469	-1 966
Change in other operating liabilities		-617	-4 799	-620	-4 798
Cash flow from operating activities		-60 696	-72 006	-60 700	-72 010
<i>Investment activities</i>					
Investments in tangible fixed assets		-270	-54	-270	-54
Sale of tangible fixed assets		2	392	2	392
Investment in financial fixed assets		-	-	-100	-
Cash flow from investment activities		-268	337	-368	337
<i>Financing activities</i>					
Repaid VAT on issue expenses		-	148	-	148
Bridge loan from shareholders		25 000	-	25 000	-
Cash flow from financing activities		25 000	148	25 000	148
Cash flow for the year		-35 963	-71 521	-36 068	-71 524
Cash and short-term investments* at beg. of year		81 338	152 859	81 092	152 616
Value adjustment short-term investments		-	-	-	-
Cash and short-term investments at end of year		45 375	81 338	45 024	81 092

* Short-term investments with a maturity of three months or less.

Accounting principles

The accounting and valuation principles applied are consistent with provisions of the Swedish Annual Accounts Act and Swedish Financial Accounting Standards Council (The Council). No new accounting standards from The Council have been implemented during the year. Since Affibody is not a public company, the company has decided to postpone implementation of IFRS. Amounts in brackets indicate comparative figures for the corresponding period last year. Amounts below are expressed in thousands of Swedish Kronor (KSEK) unless otherwise indicated.

Consolidated financial statements

The consolidated financial statements have been prepared in accordance with the purchase accounting method in accordance with the accounting standard RR 1:00 issued by the Council. Thus, in addition to the parent company's equity, only the earnings/losses from the subsidiaries' operations after the date of acquisition are included in the group's equity. The difference between the group's acquisition cost for the shares in the subsidiaries and the fair value of identifiable assets and liabilities at the time of acquisition is reported as goodwill and is depreciated over its estimated useful life. The consolidated financial statements include all subsidiaries. A subsidiary is a company in which the parent company directly or indirectly owns shares representing more than 50% of the votes.

Change in group structure

Affibody AB (publ) is the parent company of the Affibody group, which has two wholly owned subsidiaries, Affibody Incentive AB and Affibody Biotechnology AB. The latter, acquired in May 2005, was a dormant company at the time of the acquisition and there has been no operations within this subsidiary during 2005.

Segment reporting

The divisional split of the company has been deemed not to fulfil the requirements for separate branches of operations as defined by the Council's RR 25. Thus, reporting by segment has not been applied.

Accounting of income

Research payments are allocated over the period to which they refer. Revenues such signing fees and other upfront payments are accounted for as they occur. If a revenue is associated with certain explicit, larger costs, a cost-matching approach is applied in the accounting of the revenue. Milestone payments are accounted for when they have been achieved. Royalty payments are accounted for when they are invoiced. Revenue from technology license maintenance fees are allocated over the duration of the license period.

Research and development costs

In accordance with the Council's RR15 the company has to date expensed all research and development costs as they are incurred since these are still of research rather than development character. During 2005 the group expensed 54 942 (63 242) of research and development costs, whereof 3 477 (2 290) patenting expenses.

Employee compensation

The company mainly has ITP-based plans with Alecta which are treated as cost-based plans. Additional information regarding employee compensation can be found in notes 3, 4, 14 and 16.

Financial risks

Affibody has a finance policy which has been passed by the board and which serves to control the financial risks of the business. The goal is to minimize the financial risks associated with the company's operations and maximise the return on liquid funds within the framework of the

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policy. The key financial risks are currency, credit and liquidity risk. These risks have been limited and to date Affibody has not applied any form of financial hedging instruments.

Assets and liabilities

Assets and liabilities are stated at cost and nominal value respectively, unless otherwise indicated. Receivables are stated at the amounts expected to be received, based on individual assessment.

Leased assets

In accordance with the Council's standard RR 6:99 all operating assets that have been financed with leasing have been recalculated as debt-financed assets in the group income statement and balance sheets for 2002-2005. Prior to that there were no leased assets.

In note 9, depreciation on leased assets is specified. In note 7, the financial commitment relating to leased assets is shown. Note 15 shows the due date of the debt relating to leased assets. Furthermore, note 18 specifies the collateral pledged for the benefit of the lessor.

Receivables and payables in foreign currency

Monetary receivables and payables are translated at the transaction day exchange rate. Non-monetary receivables and payables are translated at the closing day exchange rate.

Fixed assets

Tangible and non-tangible fixed assets are depreciated systematically over the estimated useful life based on the asset acquisition cost as per the following:

Patents and licenses	3 years
Goodwill	3 years
Leasehold improvements	10 years
Office and IT-equipment	3 and 5 years, respectively
Laboratory equipment	5 years

An impairment test of goodwill is performed annually and in the closing of 2003 years accounts a substantial write-down was made. There is no remaining goodwill in the group or the parent company.

Leasehold improvements consist of expenses for planning and rebuilding the office and laboratory premises for which Affibody has a ten-year lease. Investments are depreciated over ten years from the start of the lease in April 2002. New investments are depreciated within this ten-year period.

According to The Councils RR17 an impairment test is made of the value the fixed assets every year to determine a potential need for write-downs.

Short-term investments

Short-term investments are valued at the lowest of cost of market value.

Cash flow statement

The cash flow statement was prepared in accordance with the indirect method and according to The Council's standard RR7 regarding cash flow statements. Thus the cash flow statement only shows real cash flows and investments financed via leasing are not shown here.

Notes**Note 1. Distribution of Net sales**

Net sales for the group/parent company is distributed as follows

	2005		2004	
	The group	Parent company	The group	Parent company
Product sales	377	377	229	229
Services	11 831	11 831	10 503	10 503
Licenses	373	373	425	425
Royalty	280	280	-	-
Revenue adjustments	150	150	-274	-274
Sum	13 011	13 011	10 883	10 883

Note 2. Purchases and sales between group companies

The parent company has during 2005 invoiced Affibody Incentive a management fee of KSEK 2,5 (2,8).

Note 3. Personnel

Average number of employees

	2005		2004	
	Number of employees	Whereof men	Number of employees	Whereof men
The group	57	29	60	29
Parent company	57	29	60	29
Executive management	6	4	7	5
Board of directors	9	7	10	8

At the end of the year there were 50 employees in the group of which 4 were on leave, i.e. 46 persons on duty

Absence due to illness

(%)	2005	2004
All employees		
- Total absence	2,1%	2,4%
- of which absence exceeding three weeks	0,0%	12,3%
Men	0,8%	1,0%
Women	3,2%	3,7%
29 year and younger	0,9%	1,1%
30-49 year	2,2%	2,4%
Older than 50 years	<i>Less than 10 persons. Not disclosed</i>	

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Salaries, other remuneration and social security expenses

KSEK	2005		2004	
	Salaries and other remuneration	Social security expenses (of which pension)	Salaries and other remuneration	Social security expenses (of which pension)
The group	29 375	15 204 (4 624)	29 046	15 939 (4 832)
Parent company	29 375	15 204 (4 624)	29 046	15 939 (4 832)

All pension schemes have been handled as fee-based. Thus the amount stated above is the company's total expense for fee-based plans

Distribution of total remuneration between employees and board members

The group (KSEK)	2005		2004	
	Board and CEO (whereof bonus)	Other employees (whereof bonus)	Board and CEO (whereof bonus)	Other employees (whereof bonus)
Sweden	3 941 (0)	25 435 (0)	2 626 (312)	26 421 (50)

Parent company (KSEK)	2005		2004	
	Board and CEO (whereof bonus)	Other employees (whereof bonus)	Board and CEO (whereof bonus)	Other employees (whereof bonus)
Sweden	3 941 (0)	25 435 (0)	2 626 (312)	26 421 (50)

Pensions

The company has fulfilled all pension obligations to the employees according to Swedish law

Share-based compensation

Information regarding share-based compensation according to the Council's RR 29 can be found below in note 4 "Compensation to board, CEO and executive management", and in note 14 "Provisions" as well in note 16 "Equity".

Note 4. Compensation to Board, CEO and executive management

Principles

The chairman of the board and board members receive remuneration as set by the shareholder's meeting. No additional remuneration is paid for committee work.

The board, based on terms proposed by the board's compensation committee, determines compensation to the CEO and other members of the executive management. Compensation elements are salary, bonuses, other benefits and share-based compensation. The executive management team consists of 6 persons as well as the CEO.

The distribution between salary and bonuses is based on the persons's responsibility and authority.

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Compensations and other benefits during the year

KSEK	Salary/ Board fees	Bonus	Other benefits	Pensions	Other remuneration	Total
Chairman of the board	75	-	-	-	-	195
Board member Per-Åke Nygren	0	-	-	-	0	0
CEO Torben Jørgensen*	0	-	0	0	-	0
CEO Carl-Johan Dalsgaard**	188	-	-	-	133	5 910
Executive management (6 persons)	0	-	0	0	-	0
Total	263	-	0	0	133	6 105

Notice period of the CEO and executive management

The members of the executive management, including the CEO, all have normal notice periods of three to six months depending on age and position.

* Torben Jørgensen during the period of January 1, 2005 to November 30, 2005

**Carl-Johan Dalsgaard during the period of November 21, 2005 to December 31, 2005

Board members' and management's share holding and warrants

	A shares	W2	W3 2001	W3 2002	PO 2003*	PO 2004*	Total Stock Equivalents
Strike price, SEK		20.20	52.00	52.00	1.0	1.0	
Exercise period until		Dec-07	Dec-08	Feb-09	Maj-13	Dec-14	
Styrelsen							
Per-Åke Nygren	1 300 000						1 300 000
Mathias Uhlén	1 453 904	2 464					1 456 368
Ledningen							
Lars Bäckman			50 000	25 000	40 000	20 000	135 000
Karin Nord	250 000			12 500	2 000	10 000	274 500
Lars Abrahmsén					50 000	20 000	70 000
Erika Johnson						25 000	25 000
Total	3 003 904	2 464	50 000	37 500	92 000	75 000	3 260 868

*Amounts include allocated but vested stock options. Allocated options in the 2003 and 2004 stock options program have partially been vested.

Per-Åke Nygren, Mathias Uhlén and Karin Nord are the only persons in the board and management group who also own shares in Affibody AB. As per December 31 2004 Per-Åke Nygren held 1 300 000 shares, Mathias Uhlén held 1 453 904 and Karin Nord held 250 000 shares in the company.

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Note 5. Auditor's fees

KSEK	2005		2004	
	The group	Parent company	The group	Parent company
Ernst & Young				
- Audit services	232	232	285	285
- Other services	74	74	250	250
Total	305	305	535	535

Note 6. Depreciation

Depreciation of tangible and intangible assets are included under administration and research and development expenses, respectively in the income statement as follows:

KSEK	2005		2004	
	The Group	Parent Company	The Group	Parent Company
Administration	215	121	308	135
- Of which tangible assets	215	121	308	135
- Of which intangible assets	-	-	-	-
Research & Development	7 428	4 260	9 032	5 823
- Of which tangible assets	4 715	1 546	5 110	1 901
- Of which intangible assets	2 714	2 714	3 922	3 922
Total depreciation	7 643	4 380	9 339	5 958

Note 7. Financial commitments

The group/parent company has financed equipment purchases through leasing. Laboratory equipment is leased over five years with a right to purchase the equipment at the end of this period for a predefined value. Office and IT equipment is leased over three years with an option to purchase the equipment at a predefined value at the end of this period. As per December 31, 2005, laboratory and office/IT equipment for KSEK 15 903 and 3 688 respectively had been purchased via this leasing facility. This corresponds to annual leasing fees of KSEK 4 015. These investments have been recalculated as financial leases in the group accounts.

The group/parent company has financial commitments regarding lease of equipments as shown below.

KSEK	Fixed assets
Fees due in	
2006	3 573
2004-2009	3 556
In 2010 or later	67

The group/parent company has financial commitments regarding lease of premises as shown below.

KSEK	Buildings and office space
Fees due in	
2006	6 227
2007-2009	18 681
2008 or later	18 681

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Note 8. Intangible assets

The group/parent company

Patents and licenses

KSEK	2005	2004
Beginning acquisition value	11 766	11 766
Purchases	-	-
Accumulated acquisition value end of year	11 766	11 766
Beginning depreciation	-9 052	-5 130
Depreciation for the year	-2 714	-3 922
Year-end accumulated depreciation	-11 766	-9 052
Year-end residual value	0	2 714

Note 9. Tangible assets

The group/parent company

Leasehold improvements

KSEK	2005	2004
Beginning acquisition value	6 462	6 447
Purchases	107	15
Accumulated acquisition value end of year	6 569	6 462
Beginning depreciation	-1 693	-1 039
Depreciation for the year	-661	-653
Year end accumulated depreciation	-2 354	-1 693
Year end residual value	4 215	4 770

Leasehold improvements refer to expenses incurred in conjunction with the reconstruction of the premises rented by the company. These investments are depreciated over the period remaining of the duration of the ten year lease contract.

The group

Office and IT equipment

KSEK	2005	2004
Beginning acquisition value	4 631	4 521
Acquired acquisition value	45	17
Sales/disposals	-3 012	-
Investments financed with leasing	271	93
Accumulated acquisition value end of year	1 935	4 631
Beginning depreciation	-3 569	-2 290
Beginning depreciation on sold assets	2 859	-
Depreciation for the year	-144	-214
Depreciation for the year on leased assets	-628	-1 065
Year end accumulated depreciation	-1 482	-3 569
Year end residual value	453	1 062
Wereof investments financed with leasing	343	851

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Parent company

Office and IT equipment

KSEK	2005	2004
Beginning acquisition value	1 215	1 198
Purchases	45	17
Sales/disposals	-75	-
Accumulated acquisition value end of year	1 185	1 215
Beginning depreciation	-1 004	-790
Beginning depreciation on sold/disposed assets	72	-
Depreciation for the year	-144	-214
Year end accumulated depreciation	-1 076	-1 004
Year end residual value	109	211

The group

Laboratory equipment

KSEK	2005	2004
Beginning acquisition value	20 861	18 630
Acquired acquisition value	-	-
Purchases	118	22
Investments financed with leasing	751	3 189
Sales/disposals	-	-980
Accumulated acquisition value end of year	21 730	20 861
Beginning depreciation	-9 682	-6 753
Depreciation for the year	-862	-1 169
Depreciation for the year on leased assets	-2 635	-2 316
Depreciation for the year on sold/diposed assets	-	556
Year end accumulated depreciation	-13 179	-9 682
Year end residual value	8 551	11 179
Wereof investments financed with leasing	7 914	9 799

Parent company

Laboratory equipment

KSEK	2005	2004
Beginning acquisition value	5 708	6 666
Purchases	118	22
Sales	-	-980
Accumulated acquisition value end of year	5 826	5 708
Beginning depreciation	-4 328	-3 714
Depreciation for the year	-862	-1 169
Depreciation for the year on sold/diposed assets	-	555
Year end accumulated depreciation	-5 190	-4 328
Year end residual value	636	1 380

Note 10. Taxes

Affibody has an accumulated tax credit of 301 519. To date the company has not capitalized any future tax claims since they are not likely to be used in the near future.

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Note 11. Financial assets

Shares and participation in group companies

KSEK	2005	2004
Beginning book value	10 520	10 520
Acquisition of shares in Affibody Biotechnology AB	100	-
Accumulated acquisition value end of year	10 620	10 520
Beginning depreciation	-10 420	-10 420
Depreciation for the year	-	-
Companies liquidated	-	-
Year end accumulated depreciation	-10 420	-10 420
Year end residual value	200	100

Group companies

	% capital	% votes	Total no. of shares	Book value, KSEK
Affibody Incentive AB	100%	100%	1 000	100
Affibody Biotechnology AB	100%	100%	1 000	100
Sum				200

Details about group companies

	Corporate registration no.	Location
Affibody Incentive AB	556610-5978	Bromma, Stockholm
Affibody Biotechnology AB	556665-6913	Bromma, Stockholm

Note 12. Prepaid expenses and accrued income

The group

KSEK	2005	2004
Prepaid rent	1 641	1 663
Other items	2 344	4 090
Sum	3 985	5 753

The parent company

KSEK	2005	2004
Prepaid rent	1 641	1 663
Other items	2 344	4 090
Total	3 985	5 753

Note 13. Short-term investments

In accordance with the group finance policy, short-term investments consist of investments in a fund with holdings of short-term government notes, i.e. with a maturity of less than three months.

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Note 14. Provisions

Affibody had as of December 31, 2005, made provisions of 1 558 (1 600) regarding accrued social security expenses relating employee stock options. The change in provisions made compared to last year is based on the number of employee stock options allotted, which has been reduced due to resignations during the year, and the estimated value of the benefit. See additional details in note 16 regarding 2003 and 2004 years' stock option schemes.

Note 15. Financial lease

The item relates to the remaining debt on leased assets if these instead had been financed with bank loans. The distribution of the maturity of debt is

KSEK	Debt due, KSEK
2006	3 075
2007-2009	5 507
2010 -	187

Note 16. Equity, warrants and stock options

The group's registered share capital amounts to SEK 4 615 878.80 distributed on 23 079 394 shares. There are 6 597 733 A shares and 16 481 661 preference shares. Preference shares have been issued in four series, P1, P2, P3 and P4. Preference shares have preferential rights in case of liquidation and dividends.

The company has issued four series of warrants corresponding to 2 939 116 new common shares. 1 507 102 of these remain in the group mainly as a hedge for the group's commitment relating to employee stock option schemes

Warrants representing 2 155 523 shares for exercise 2005 were not exercised and have expired.

Warrant series	W2 2000	W3 2001	W3 2002	SO 2003	SO 2004
Corresponding numbers of shares	465 116	304 000	670 000	500 000	1 000 000
Exercise price, SEK	20.20	52.00	52.00	1.00	1.00
Exercise period until	Dec-07	Dec-08	Feb-09	May-13	Dec -14

SO 2003 - employee stock option scheme

At the Annual General Shareholder's meeting in May 2003, an employee stock option scheme was launched. In total, 202 000 stock options were allocated with an exercise price of SEK 1 and an exercise period until May 2013. The stock options were vested and will be released with one third per year over a three-year period starting from May 8, 2003. In the case of a future exercise of the stock options a benefit arises for the employee on the difference between the share price and the exercise price. At this point in time the parent company has an obligation to pay social security fees on this benefit. The parent company makes continuous provisions for this potential future liability. As per December 31, 2005, the number of stock options in this program had been reduced to 180 184 as a result of resignations. An additional 115 000 stock options were allocated to executive management at the end of 2003. These were not vested. See further information in note 4.

SO 2004 - employee stock option scheme

At the Annual General Shareholder's meeting in May 2004, 1 000 000 warrants were issued for the benefit of future stock option schemes. In December 2004, the board decided to allocate a total of 216 500 stock options to employees in Affibody. The terms are similar to those of the 2003 years programme with vesting over a three-year period. This stock option scheme is accounted for in the same way as 2003 years scheme with annual provisions for a potential future social security obligation for the company. As per December 31, 2005, the number of stock options in this program has been reduced to 115 834 as a result of resignation. An additional 25 000 stock options were allocated to the executive management in 2005. These were not vested. See further information in note 4.

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Note 17. Accrued expenses and deferred income

The group

KSEK	2005	2004
Personnel expenses	5 862	5 467
Deferred income	1 211	2 499
Other items	1 949	915
Sum	9 022	8 881

Parent company

KSEK	2005	2004
Personel expenses	5 862	5 467
Deferred income	1 211	2 499
Other items	1 949	915
Sum	9 022	8 881

Note 18. Pledged assets

Affibody AB has pledged SEK 6 million as collateral for a bank guarantee issued by Handelsbanken for the benefit of landlord under the lease agreement. In addition, Affibody AB initially pledged SEK 8 million as collateral for the leasing facility provided by Danske Finans. Now that investments have been made under the leasing facility the main collateral is provided by the assets owned by Nordania and leased to Affibody AB. The book value of these assets is SEK 8,3 million at the end of 2005.

KSEK	2005	2004
Fastighets AB Balder, landlord	6 000	6 000
Danske Finans	8 257	10 649

Note 19. Loan from shareholders

On December 21, 2005, Affibody was rendered a bridge loan facility of in total SEK 25 million from HealthCap III Sidefund KB (12 312 500 SEK), OFCO Club III Sidefund (187 500 SEK) and Investor Investments Novare Limited (12 500 000 SEK). The bridge loan facility bears a yearly interest rate of twenty per cent (20%). Repayment of the amount under the bridge loan facility together with accrued interest thereon is due at the earlier of (i) the company's next round of financing, or (ii) December 31, 2006. Each of the creditors is entitled to offset the capital it has contributed to the bridge loan facility and the accrued interest thereon, against new shares of Affibody.

Note 20 Cash Flow Statement

Interest expense paid during the year amounts to KSEK 170 (52). Interest income received amounts to KSEK 303 (310).

Bromma, April 21, 2006

Karl Swartling
Chairman of the Board

Kate Bingham

Tove Eriksson

Björn Odlander

Mathias Uhlén

Carl-Johan Dalsgaard
Chief Executive Officer

Vår revisionsberättelse har avgivits den april 2006.

Lars Träff
Auktoriserad Revisor

Mona Paulsson
Auktoriserad Revisor