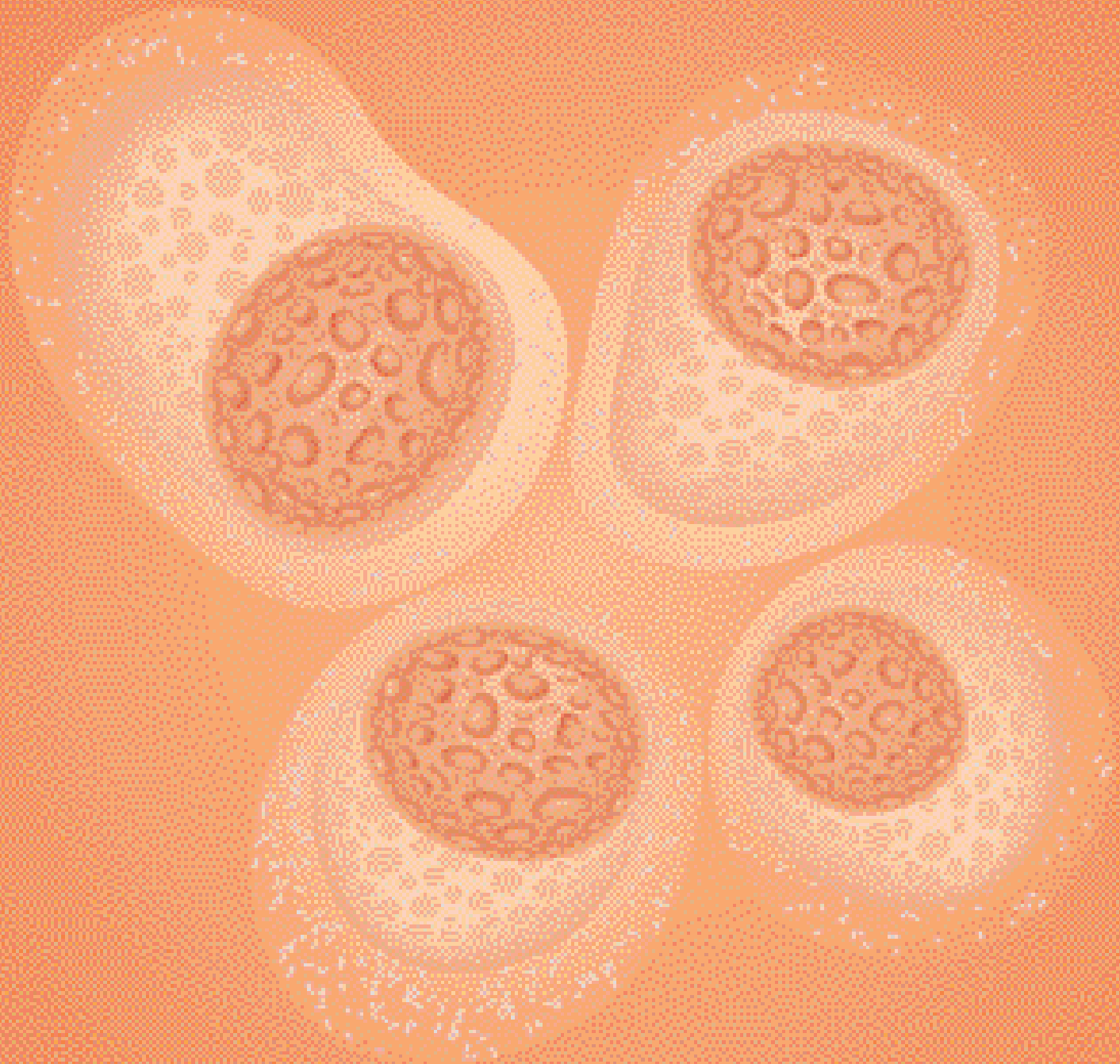


# twothousand4ward

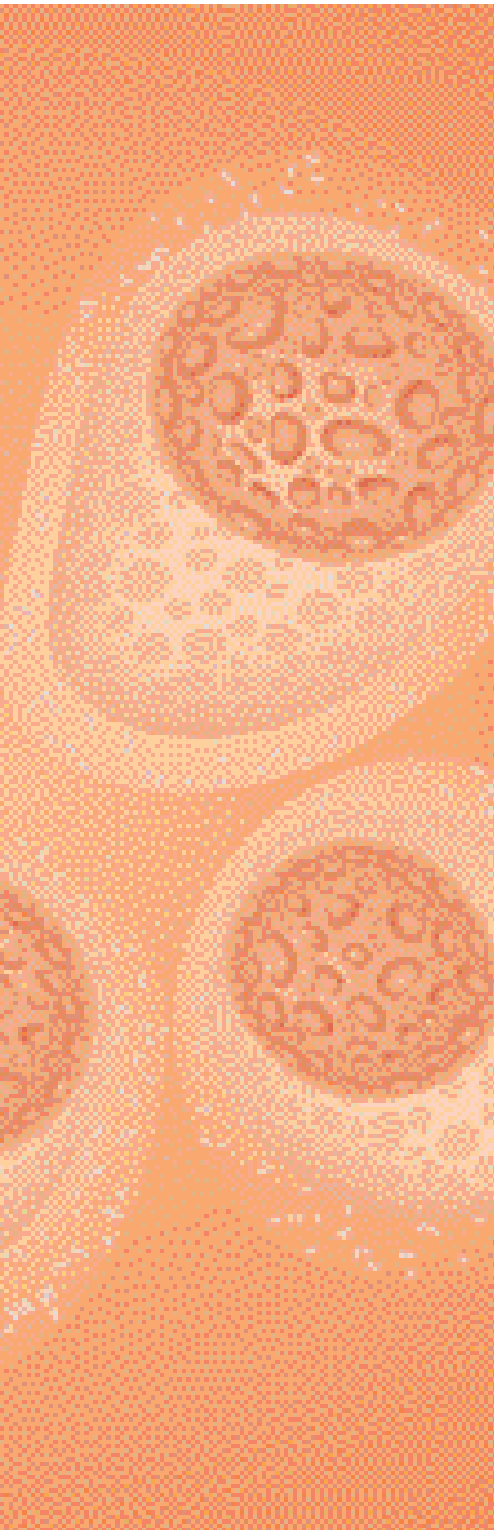


## *Our Mission*

INTERCELL'S MISSION IS TO DISCOVER AND DEVELOP VACCINES FOR THE PREVENTION AND TREATMENT OF INFECTIOUS DISEASES AND CANCER.

Intercell is a biopharmaceutical company based in Vienna, Austria. Since becoming operational in 1998 Intercell's mission is the discovery and development of innovative immunological products and technologies. Today, Intercell is in the world-topleague of successful biotech companies. With a staff of more than 120, from 12 different nations, Intercell is an innovative, efficient and quality conscious company in the front line of the development of so called "smart vaccines."

Our products and technologies are greatly valued by established vaccine companies, and are already showing promising results in clinical trials. One of our lead products, a therapeutic Hepatitis C vaccine, entered Phase II clinical testing in November 2002, results are expected mid-2004. The other, a vaccine against the Japanese encephalitis virus (JEV), has successfully passed through a Phase II clinical study and will enter Phase III clinical trials in 2005. Apart from this, we have built up a strong preclinical pipeline, including a Staphylococcus aureus vaccine developed in collaboration with a leading vaccine company, a Group A Streptococcus vaccine, a traveler's diarrhea vaccine, and a tuberculosis prophylactic vaccine.

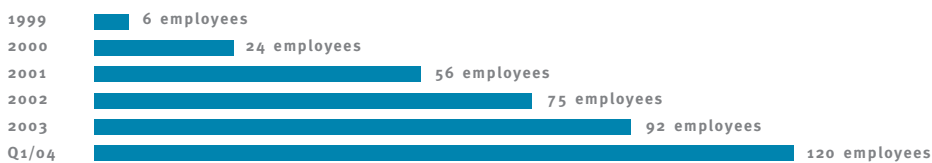


# Two thousand and four

TWOTHOUSANDAND4 WE ARE MOVING INTERCELL FORWARD TO...

## ... INDUSTRIAL STRUCTURES >>

### GROWTH OF INTERCELL'S TEAM



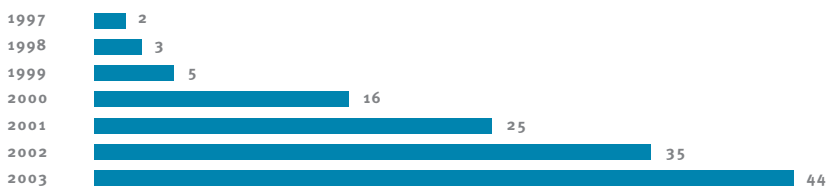
## ... MARKET OPPORTUNITIES >>

### VACCINE MARKET GROWTH in Eur Billions



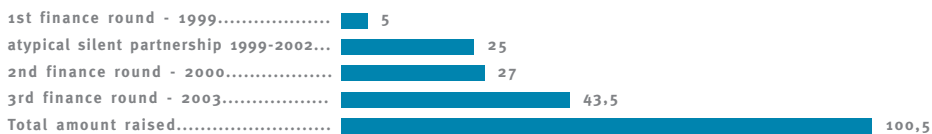
## ... SCIENCE >>

### PATENTS



## ... FINANCIAL STRENGTH >>

### FINANCE HISTORY in Eur million



## 4word

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### STATEMENT BY THE MANAGEMENT-BOARD

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Dear shareholder,

In times of economic uncertainties, it is gratifying to be able to report to you on another year of steady growth and technological progress. Let us summarize some of the key achievements which contributed to Intercell's success in 2003.

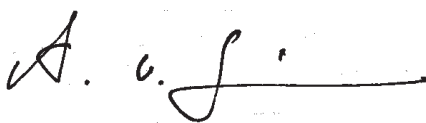
» An important milestone was the in-licensing of the Japanese encephalitis project, which was transferred to Intercell in the summer of 2003. This will take us closer to our goal of bringing our first proprietary vaccines to market.

» Another highlight of the year was the closing of a third financing round, which raised a total of € 43.5 million. This was the largest private biotech equity financing completed in Europe over the past 24 months, and will underpin Intercell's financial security.

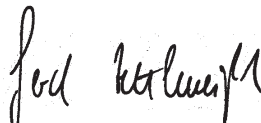
» A notable feature of the year was the signature of a number of landmark commercial agreements. Among these was a commercial license agreement with Aventis Pasteur for the development of a new generation of bacterial vaccines. This marks an important step towards industry recognition of our ability to develop novel vaccine products. In addition, we concluded a cooperation and license agreement with the Statens Serum Institut to develop a tuberculosis prophylactic vaccine which will be moved into Phase I clinical trials in 2005.

» The acquisition of a manufacturing plant in Edinburgh, Scotland in March 2004 enables us to gain control over manufacturing in commercial scale. We will use the manufacturing capacity for our late stage Japanese encephalitis vaccine and for our vaccine pipeline resulting from our bacterial Antigen Identification Research and Development Programs.

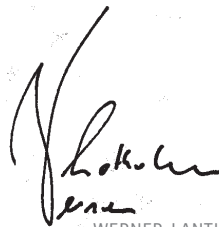
The present report shows, that 2003 was a pivotal year for Intercell. We strengthened our company and our research base by making key investments and license agreements. We would like to express our gratitude to all who contributed to the progress made.



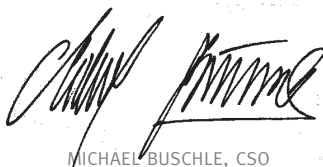
ALEXANDER VON GABAIN, CEO



GERD ZETTLMEISSL, COO



WERNER LANTHALER, CFO



MICHAEL BUSCHLE, CSO



JÜRGEN FRISCH, CMO

# *It contents*

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In this Annual Report you find 4 reasons to read further

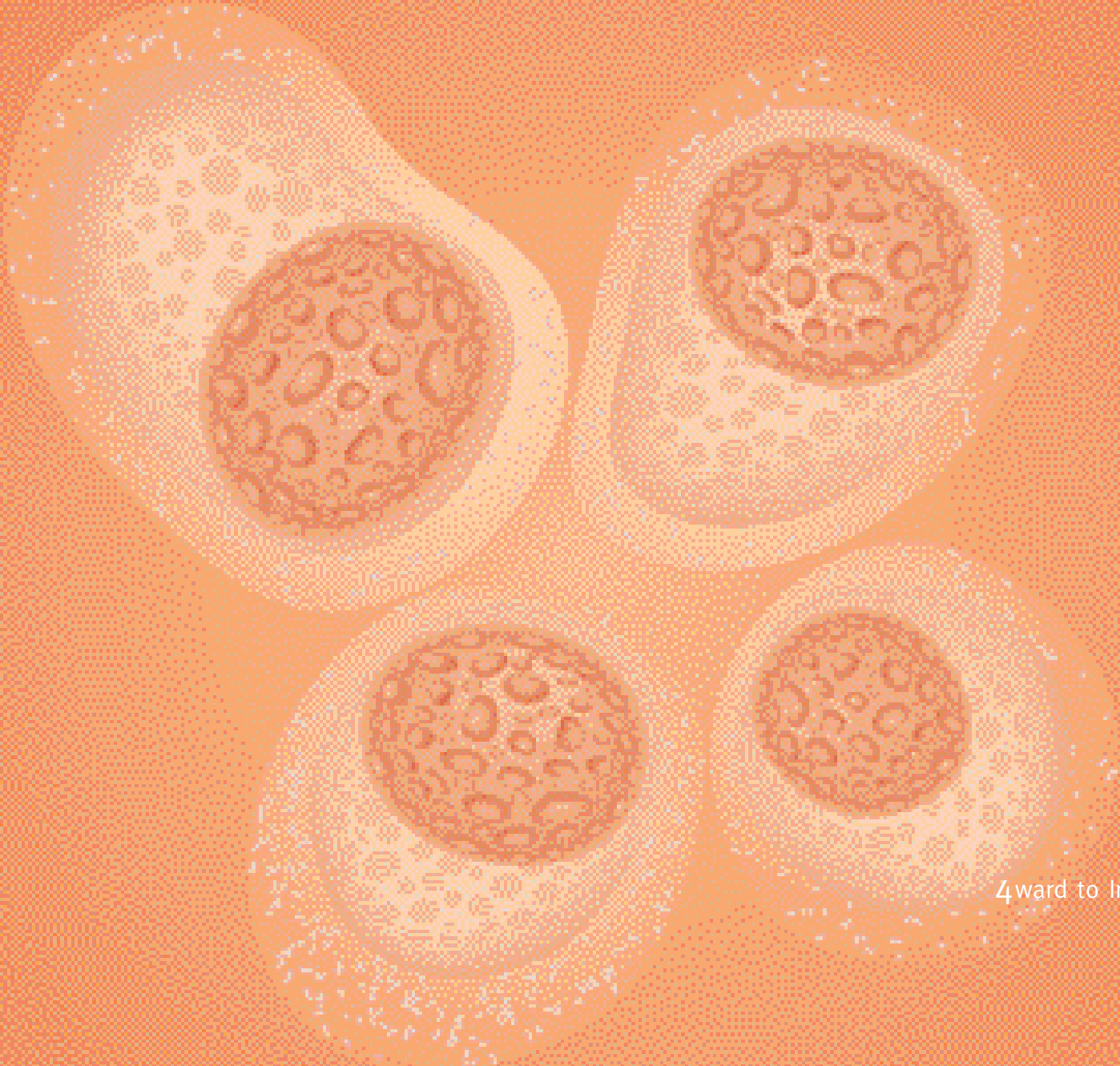
1. It works   2. It pays   3. It is relevant   4. It is the future

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*4ward to Industry*

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## *4ward to Industrial Structures*



„Our company's top priority is curbing infectious diseases. Our research and development effort is devoted to sustainable medical advancement and human well-being.“

Alexander von Gabain is one of the founders of Intercell AG. He was previously Chairman of the Department of Microbiology and Genetics at the renowned University of Vienna, following a

scientific career which took him to the University of Heidelberg, Stanford University and the Karolinska Institute in Stockholm.

## *How it all began* » HISTORY

### 1998

» Intercell is founded as a spin-off from the Campus Vienna Biocenter. The early years are marked by successful technology transfers from academic research departments to product development.

» The Company's first financing round attracts an € 5.0 million investment by TVM. Austrian investors (Kapital & Wert and Wiener Städtische) subsequently come on board.

### 1999

» Intercell's scientists design a first clinical Phase I study for the Company's therapeutic T-cell vaccine against Hepatitis C.

» Antigen identification and Immunizer (Adjuvants) technologies are further optimized and tested in preclinical models.

» The company embarks on collaborations with renowned institutions including The Institute for Genomic Research (TIGR), the Ludwig Institute of

Cancer Research and the Aeras Global Tuberculosis foundation (formerly the Sequella Foundation)

» Workforce: 6

### 2000

» A € 27.0 million second financing round led by Apax Partners and Nomura Ltd. is closed in November 2000.

» The Phase I clinical study of the therapeutic Hepatitis C vaccine is launched.

» The Company moves into its new building which has animal facilities suitable for preclinical infectious disease studies.

» Intercell forges partnerships with established pharma players including Novartis and Baxter.

» Workforce: 24

### 2001

» Intercell appoints Werner Lanthaler (CFO) and Gerd Zettlmeissl (COO) to its Management Board.

The team is further strengthened by the arrival of senior managers with extensive industrial and financial expertise.

- » The Phase I Hepatitis C vaccine study is successfully completed.
- » Due to the promising results of the Phase I study plans are made for an Europe-wide, multi-center Phase II study of the Hepatitis C vaccine.
- » Research collaboration on Intercell's Antigen Identification Program (AIP) with Merck & Co. (US) starts.
- » Intercell generates its first income in the form of upfront payments arising from technology deals.
- » Workforce: 56

## 2002

- » Intercell strengthens the team of experts in the field of manufacturing, quality control and assurance, as well as clinical and regulatory affairs.
- » Work is proceeding on the design of the Europe-wide, multi-center Phase II study of the Hepatitis C vaccine and on the manufacturing process for clinical material.
- » Intercell establishes its own GLP laboratory with state-of-the-art equipment. The AIP delivers promising candidate antigens for various vaccine targets.
- » IC31, Intercell's second generation vaccine adjuvant, with superior induction of T and B-cell immunity, progresses to the product development stage.
- » The HCV Phase II study kicks off.
- » Workforce: 75

## 2003

- » Jürgen Frisch joins the Management Board as Chief Medical Officer.
- » Intercell acquires the worldwide development and marketing rights to a prophylactic vaccine against Japanese Encephalitis, which has successfully undergone Phase I and II trials.
- » Intercell closes an € 43.5 million third finan-

cing round led by Global Life Science Ventures, including MPM Capital and Star Ventures as new investors.

- » Intercell forms and seeds its first spin-off, Biovertis AG. The company will use a combination of AIP technology, the latest biocomputing and NMR methods to design novel antibiotics.
- » A drug master file and manufacturing process is established for IC31.
- » The AIP yields the first promising protective antigens for the development of Intercell's pipeline vaccines against GAS, GBS, traveler's diarrhea and S. pneumoniae in pre-clinical models.
- » Patient enrollment is concluded for the Phase II Hepatitis C trial targeting non-treatable chronic Hepatitis C (HCV) patients who are not responding to the current treatment.
- » Intercell signs a commercial license agreement with Aventis Pasteur for the development of bacterial vaccines.
- » Workforce: 92

## 2004

- » A multi-purpose biologics manufacturing plant in Livingston, Scotland is acquired. The manufacturing capacity will be used for the late stage Japanese encephalitis vaccine and for the vaccine pipeline resulting from its bacterial Antigen Identification research and development programs.
- » Intercell signs a commercial license agreement for the development of a new prophylactic Tuberculosis vaccine with the Statens Serum Institut.
- » Workforce: 120

## *Where we are going* » MARKETS

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„Vaccines save millions of lives worldwide each year, and protect many more people against the devastating medium and long-term effects of infectious diseases. “Smart vaccines” can help more people at lower cost. The global need, and hence the global market exists — it is merely a matter of seeing precisely where it lies, and breaking into it.“

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Our products and technologies are aimed at large, lucrative and relatively uncompetitive markets. The world vaccine market has marked up a compound average growth rate of 10–15% over the last decade, and was generating more than € 7 billion in sales by 2003; it is expected to triple to about € 20 billion by 2010. Most of

this additional demand will be for novel prophylactic and therapeutic vaccines like those we develop, rather than the slow-growing market for conventional vaccines.

The market for our products comprises not only preventive vaccines but also therapeutic indications. The possibility of curing diseases with the help of the immune system opens up a broad range of applications, which are not limited to infectious diseases. For example, therapeutic vaccines offer the prospect of fighting cancer. They should be able to detect and destroy malignant cells by activating the same immune mechanisms that fight bacteria and viruses.

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## *The strategy behind* » BUSINESS STRATEGY

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„Intercell’s goal is to become a leader in the field of novel vaccines for the prevention and treatment of infectious diseases. To achieve this, we have designed a business model that combines scientific innovation with best practice development know-how and management expertise.“

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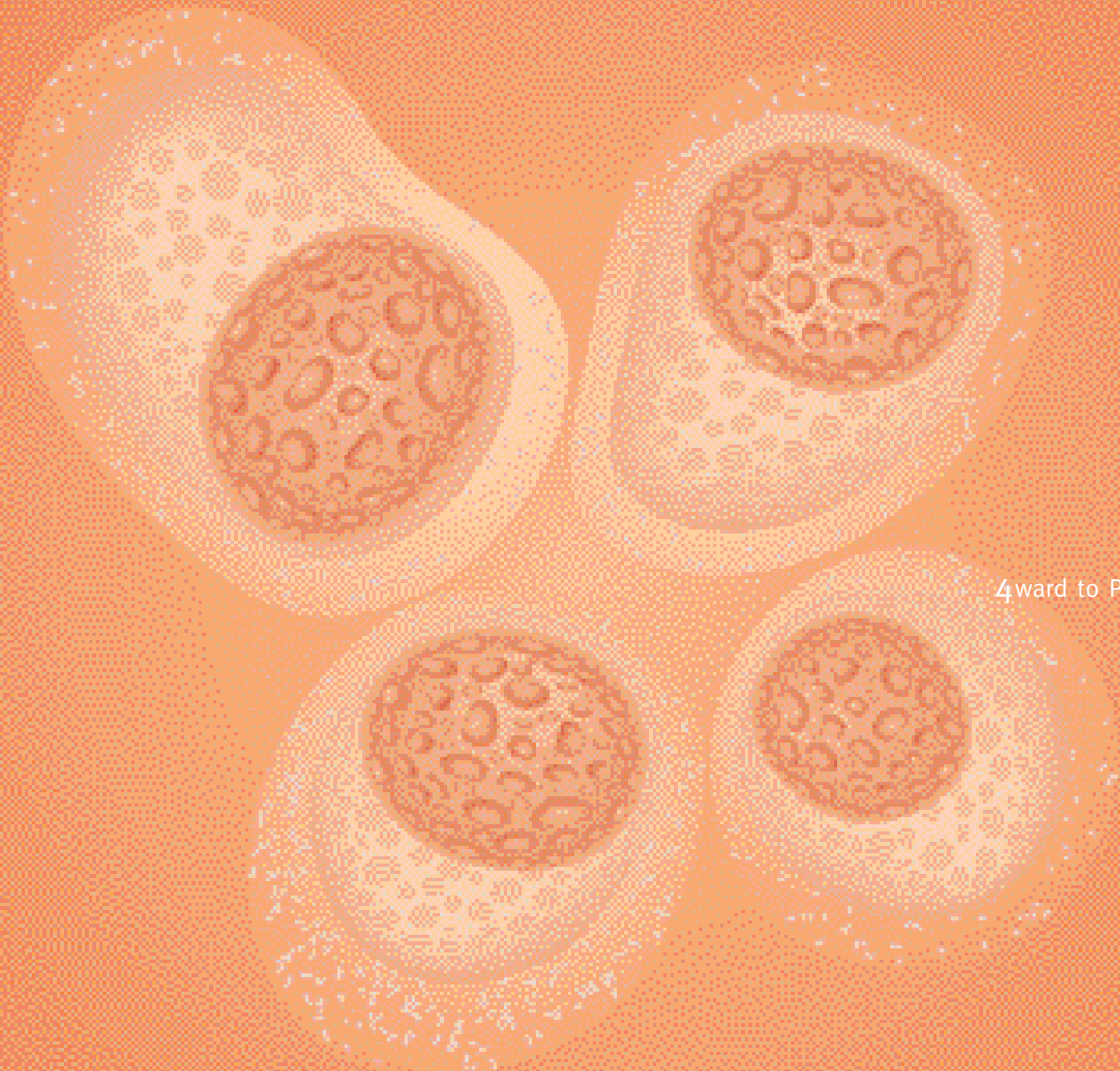
Our approach is based on simplifying vaccine development using latest stage vaccine technologies and advancing our products as rapidly as possible to clinical trials.

Our prophylactic vaccine against JEV will enter a Phase III trial 2005. Our other lead product, a Hepatitis C therapeutic vaccine, has successfully passed through Phase I, demonstrating safety

and HCV specific immunogenicity. It is currently undergoing Phase II clinical studies, results are expected mid 2004. In addition, we have a number of bacterial pipeline vaccines in late stage pre-clinical trials. We also have externally validated platform technologies that are set to become the basis of flourishing partnerships with established vaccine manufacturers. The next generation of proprietary Immunizers has achieved outstanding benchmarking results compared to other adjuvants in stimulating B-cell and T-cell immunity. The ability of our antigen identification platform to generate protective immunity has been validated by extensive animal studies.

*4ward to Products*

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4ward to Products

## Focus on Products



GERD ZETTLMEISSL, COO

Intercell's Chief Operating Officer Gerd Zettlmeissl previously headed worldwide manufacturing and quality operations at Chiron vaccines and was CEO of the leading German vaccine producer Chiron Behring.

### TWO CLINICAL LEAD PRODUCTS

„Clearly defining product candidates and advancing them successfully through clinical studies is the road to maximum returns on our technologies.“

Intercell has two lead products with significant market potential. The first one in the pipeline is a therapeutic Hepatitis C vaccine that has successfully completed a clinical Phase I study and is now undergoing a Phase II study. The results are

„For numerous highly dangerous diseases no satisfactory vaccine exists. People at Intercell work to respond to these growing threats.“

expected mid-2004. The second is a prophylactic vaccine against Japanese Encephalitis which has shown promising results in clinical Phase II trials and is scheduled to move into clinical Phase III studies early in 2005.

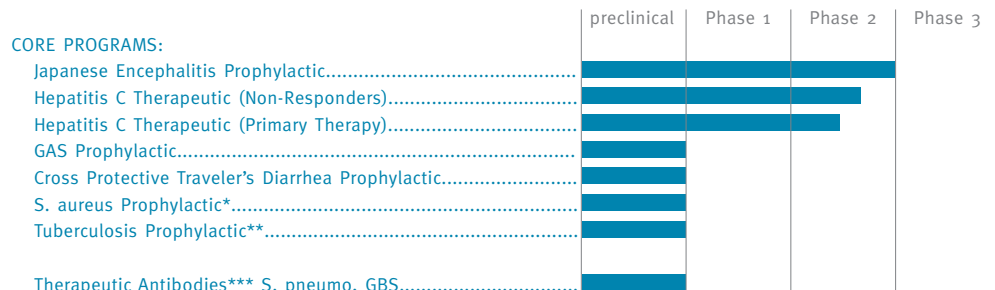
### STRONG FOLLOW-UP PRODUCT CANDIDATES

„We are well on our way turning Intercell into a development powerhouse.“

Apart from our lead products we have built up a preclinical pipeline of vaccines against other infectious diseases, including a Staphylococcus aureus vaccine, a Group A Streptococcus vaccine, a traveler's diarrhea vaccine and a tuberculosis prophylactic vaccine. Therapeutic antibodies are another potential application for our antigen platform, and we are currently pursuing Streptococcus pneumoniae and Group B Streptococcus as targets.

### PRODUCT OVERVIEW >>

#### CORE PROGRAMS:



\* partnered with major vaccine company    \*\* partnered with Statens Serum Institut    \*\*\* to be partnered in 2004/2005

## Focus on Hepatitis C



„Having enrolled more than 200 persons for our current Hepatitis C studies, enables us to learn about the efficacy and potential of our vaccines.“

Jürgen Frisch is Intercell's Chief Medical Officer, and is responsible for clinical development and regulatory issues. Before joining Intercell he accumulated extensive experience of pharmaceutical development at multinational companies including Behringwerke, Hoechst Marion Roussel and Aventis, having been managing and medical director at the Genetics Institute, Munich.

### HCV BACKGROUND

Until about 20 years ago, only three viral causes of acute and chronic Hepatitis had been identified. Hepatitis C was still referred to as Non-A/Non-B Hepatitis. When research into the disease began it was not known how it was transmitted, and it was still hard to differentiate between the known Hepatitis types. The discovery and molecular analysis of the Hepatitis C virus genome occurred as late as 1989. Subsequently, it was discovered that Hepatitis C is a blood-borne pathogen.

### THE VIRUS

The Hepatitis C virus is a small, enveloped RNA virus which belongs to the family of flaviviridae. Humans are the only known host of HCV. The virus is diagnosed through antibody testing and verification of viral RNA in serum. HCV can be classified into six major genotypes.

The most prevalent in Europe are genotypes 1 and 3, and in the USA there are genotypes 1, 2, and 3. Genotypes 4 and 5 are found in Africa, and genotype 6 is most common in Asia.

### MARKET

Currently there is no vaccine against Hepatitis C and infected people are at a high risk of developing liver cirrhosis, liver cancer or liver failure requiring transplantation.

According to the World Health Organisation (WHO) three percent of the world's population is infected with HCV. Worldwide approximately 170 million are chronic HCV carriers, 10 percent of those infected are living in the developed world. Each year three or four millions are newly infected.

In 2002 worldwide sales of Hepatitis C drugs totaled around € 2.8 billion, and demand is growing fast. The market is seen expanding to € 3.7 billion by 2006.

Sales of our therapeutic vaccine for use in treatment of the non-responder target population are expected to peak at around € 1 billion.

4ward to Products

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#### **OUR VACCINE**

At present, Hepatitis C can only be treated with a combination of Interferon and Ribavirin in a long-term therapy which is of limited efficacy and has significant side effects.

Our therapeutic Hepatitis C vaccine fills this gap. It uses Poly-L-Arginine, our first generation Immunizer, and contains synthetic T-cell epitopes of the Hepatitis C virus, which stimulate the immune system to produce a strong and specific T-cell response.

#### **CLINICAL DEVELOPMENT PROGRAM**

**Preclinical:** Preclinical tests have shown that Poly-L-Arginine is an excellent Immunizer for inducing T-cells, and induces high and sustained T-cell responses upon repeated application.

**Phase I:** A Phase I trial demonstrated the safety and tolerability of the vaccine.

**Dose optimization trial:** A trial designed to yield safety and tolerability data has been performed.

**Phase II:** A Phase II trial is investigating efficacy and safety in chronic HCV patients who previously failed to respond to standard treatment with Interferon and Ribavirin. The final results are expected in the course of 2004. A fast track to market entry is planned.

## Facts » HEPATITIS C

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*Hepatitis C is a virus that can cause serious liver diseases including cirrhosis, cancer and, in the worst case, liver failure requiring transplantation. At present there is no prophylactic vaccine and no effective treatment. Intercell's therapeutic Hepatitis C vaccine is currently undergoing a Phase II clinical trial.*

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**MEDICAL NEED »** Hepatitis C is the most common blood-borne infection in many parts of the world. WHO prevalence studies (WHO 2000) indicate that about 170 million people are infected with Hepatitis C, and about three to four million are newly infected each year. Hepatitis C is a viral infection of the liver and the virus is a major cause of acute Hepatitis and chronic liver diseases, including cirrhosis, liver failure, and liver cancer. Hepatitis C is primarily spread by direct contact with blood. One of the main characteristics of the virus is the relative mutability of its genome.

**CURRENT TREATMENT »** There is no vaccine against Hepatitis C, and the complexity and mutability of the virus makes it difficult to develop one. At present, Hepatitis C can only be treated with a combination of Interferon and Ribavirin in a long term therapy with limited efficacy and significant side effects. It is only effective in 50% of the cases and gives rise to significant costs per patient and year.

**POTENTIAL MARKET »** We estimate the potential global market for a safe and efficacious vaccine around € 1 billion.

**OUR VACCINE »** Intercell's lead product, a therapeutic Hepatitis C vaccine, uses Poly-L-Arginine – Intercell's first generation immunizer – and contains synthetic peptide epitopes of the Hepatitis C virus which stimulate the immune system to produce a strong T-cell response. The Phase II study started in the fourth quarter of 2002. It will be a sequential multi-dose treatment for chronic HCV patients.

4ward to Products

## *Focus on Japanese Encephalitis*

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„In barely a decade, the world of vaccines has radically changed. The increasing knowledge in Immunology and the opportunities provided by Molecular Biology enable the development of new and better prophylactic and therapeutic vaccines in a variety of indications and the respective growth of the market. In this context Intercell as a highly innovative biotech vaccine player contributes in an outstanding way with its technologies and products.“

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### **JAPANESE ENCEPHALITIS BACKGROUND**

Japanese Encephalitis, a mosquito-borne flaviviral infection, is the leading cause of childhood encephalitis in Asia. Some 50,000 cases are reported annually, 6,000 of them are fatal. In addition, travelers and military personnel are at risk of infection.

Our prime objective is to develop a prophylactic Japanese Encephalitis vaccine for adults traveling to endemic areas. We aim to market the vaccine to adult travelers from the US, EU, Australia and Asia, and to armed forces in these regions.

### **CURRENT TREATMENT**

At present one vaccine is being marketed in non-endemic areas. This is licensed and distributed in the US by Aventis Pasteur. It is not licensed in the EU, but is available on an individual basis to travelers. It must be administered three times within a month, and is protective in 75–90% of subjects.

Due to its manufacturing process there are inherent safety concerns with this vaccine, including severe neurological symptoms and hypersensitivity reactions.

### **MARKET**

A forecasted 14 million tourists will travel to endemic areas by 2006. We assume that that 4% of them will be vaccinated. Further more military personnel in the US will be vaccinated against Japanese encephalitis.

From this we assume revenues around € 150 million.

### **OUR VACCINE**

The Japanese Encephalitis vaccine is a purified, inactivated vaccine. It is designed for administration twice within a month.

### **CLINICAL DEVELOPMENT PROGRAM**

The prophylactic Japanese encephalitis vaccine has already undergone a Phase II study in the US which yielded highly promising results. It was protective in 95–100% of the subjects, and had a good safety profile. A Phase III clinical trial will start early in 2005.

## Facts » JAPANESE ENCEPHALITIS

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*Japanese encephalitis, a mosquito-borne infection, is the leading cause of viral encephalitis in Asia. The existing vaccine is produced with an outdated technology that can cause severe side effects. Intercell's modern Japanese encephalitis vaccine has successfully undergone a clinical Phase II trial and will move into Phase III in 2005.*

---

**MEDICAL NEED »** Japanese encephalitis is the leading cause of viral encephalitis in Asia. Infection is spread by infected mosquitoes. An estimated 50.000 cases and 10.000 deaths occur each year, mostly among children. The risk of infection is greatest in parts of Southern and Eastern Asia, the Indian subcontinent, and south-eastern Russian Federation.

**CURRENT TREATMENT »** The existing vaccine against Japanese Encephalitis is produced with an outdated technology on mouse brain. It must be administered three times within a month, and may cause severe side effects including neurological symptoms and hypersensitivity reactions.

**POTENTIAL MARKET »** By 2006, 14 million tourists will be traveling to endemic areas, and 4 % of them will be vaccinated. On this basis our peak sales for a safe and efficacious vaccine are estimated at about € 150 million.

**OUR VACCINE »** Our vaccine is a purified, inactivated vaccine, manufactured from the attenuated (non-pathogenic) strain 14-14-2, which is grown on vero cells. It is designated for administration twice within a month. In the Phase II trial it was protective in 95-100% of the subjects. It showed a good safety profile.

4ward to Products



## Facts » FOLLOW-UP-CANDIDATES

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**GROUP A STREPTOCOCCUS VACCINE** » More than 10 million cases of throat infection occur in the USA alone per year. The age group most often effected are children aged 3 to 15. Health surveillance data shows 3.5 cases of invasive diseases per 100.000 people and about 1.000 deaths. In the US, approx. USD 2 billion are spent annually on treating throat infections. Intercell's product is a prophylactic childhood vaccine to prevent throat infections and severe invasive disease. Our demand forecast for the vaccine in the US and Europe is around € 500 million. Intercell's vaccine against Group A Streptococcus is based on two to three recombinant antigens identified by Intercell's AIP and our second generation immunizer IC 31. Currently it is at the preclinical development stage.

**TRAVELERS'S DIARRHEA VACCINE** » Some 20 – 50 % of travelers from the US and the EU to endemic areas develop diarrhea. Antibiotics are the current treatment for symptomatic patients. We estimate the potential market in the US and Europe at about € 800 million. Intercell's prophylactic vaccine – a combined traveler's diarrhea vaccine covering ETEC, Shigella and Campylobacter – is under preclinical development. The product will be composed of several cross protecting antigens, still to be identified for the closely related pathogens, and Intercell's IC 31 immunizer.

**GROUP B STREPTOCOCCUS** » GBS is the major cause of generalized and focal infections in the newborn infant. In the US, GBS infections affect 1-5 newborns per 1.000 live births. Antibiotics is the current standard treatment, penicillin is the drug of choice. High dose penicillin treatment may induce antibiotic resistance. Intercell's vaccine will consist of fully human monoclonal antibodies selected with GBS antigens identified by Intercell's AIP. Market potential in the US and Europe is put at € 600 million/year. The target product will be developed in cooperation with a partner.

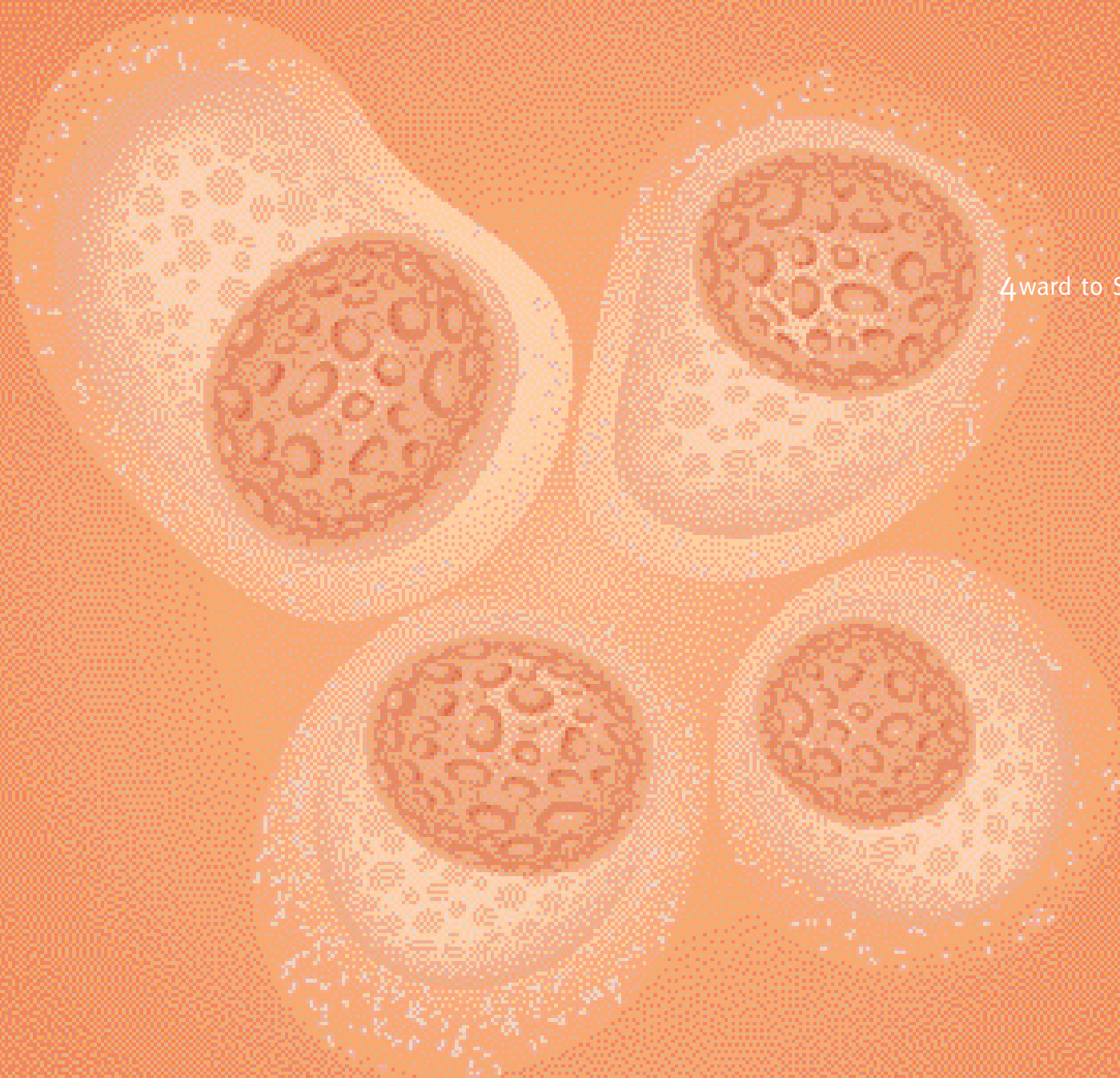
**STREPTOCOCCUS PNEUMONIAE MAB** » Invasive pneumococcal diseases — pneumonia, bacteremia and meningitis — kill more people than any other preventable infection. The fatality rate for bacteremia is 30-40% in elderly people (over 65), and 50% of all deaths attributable to invasive pneumococcal diseases occur in this age group. Penicillin is the drug of choice for treatment. However, successful therapy has become increasingly difficult because of widespread antimicrobial resistance. Our product will consist of fully human monoclonal antibodies targeted against Streptococcus pneumoniae. Clinical studies will start in 2007. The estimated potential market is € 800 million/year.

**TUBERCULOSIS** » Two billion people worldwide carry the tuberculosis bacillus which can lead to active tuberculosis. The disease kills an estimated three million people each year, and is the leading infectious killer of HIV positive people. The WHO believes that between 2000 and 2020 nearly one billion people will be newly infected. Tuberculosis is an air-borne contagious disease.

Intercell's vaccine is a joint project with the Statens Serum Institute (SSI), Denmark: the antigen is a SSI development, which is combined with Intercell's IC31 immunizer. As many benchmark projects show, this approach — combining the best antigen and the best immunizer — holds out promising prospects for bringing an optimum product to market. The product will enter a Phase I clinical study in 2005. The clinical, and development process will be conducted by the SSI. All costs will be carried by the Institute, which is receiving support from the EU, the Aeras Global TB vaccine foundation, and the Bill and Melinda Gates Foundation.

# 4ward to Science

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4ward to Science

## *Focus on Novel Vaccines*

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MICHAEL BUSCHLE, CSO



„Vaccination is probably the most efficient form of medical intervention and it has saved more lives than anything else in human medicine, so it is ironic that most of the vaccines in the market today are based on very old technologies.“

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Michael Buschle, Intercell’s Chief Scientific Officer, is a co-founder of the company. Previously he worked at the Royal Free Hospital School of Medicine in London, at the St. Jude

Children’s Research Hospital in Memphis, Tennessee, and for the pharmaceutical company Boehringer Ingelheim. He holds several vaccine and biotechnology patents.

## *Diversified Technology Platform*

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„We employ cutting-edge technologies for the development of smart vaccines against infectious diseases and cancer.“

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Our technologies profit from the new perspectives opened up by modern genetics and molecular biology. Because we aim to become a fully diversified player in the vaccine industry, our scientific work covers all aspects of the research required to develop successful vaccine products. On the one hand, we address the genetic structure of viral and bacterial pathogens in order to identify those antigens

that are recognized by the immune system. On the other, we develop molecular compounds that stimulate the build-up of immune reactions in the human body. These are our proprietary Immunizers (adjuvants). Our technologies cover both arms of the immune system – B-cell immunity (antibodies) and T-cell immunity (immune cells). The latter has not yet been successfully addressed by existing vaccines, and is believed to be the key for the development of vaccines for numerous diseases. This broad-based approach enables us to spread the risk that is inherent to any scientific innovation.

## *Behind Smart Vaccines*

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„Most of the content of a conventional vaccine is not needed to induce immune response. Our smart vaccines consist only of the absolutely necessary components.“

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Most existing vaccines consist largely of inactivated or attenuated organisms like viruses and bacteria or are derived from obscure manufacturing sources, like chicken eggs and „baby mouse“ brain. Such

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vaccines contain, along with the protective antigens, numerous components that are unnecessary and cause side effects. We specialize in minimizing the set of components needed. In the most minimalistic case there are only two: the antigen, which gives the vaccine its specificity against a certain organism; and the Immunizer (adjuvant), which activates the immune system in a way that enables it to recognize the antigen and trigger a strong immune response. One of our programs deals

with identifying novel adjuvants, and another with novel antigens. These are Intercell's core technologies. They result in innovative vaccines that contain only the minimum components needed to activate the immune system.

Such a vaccine is simpler to produce, and is safer because it does not contain living organisms, focuses better on the immune system, and is likely to have fewer side effects. That is what we call a "smart" vaccine.

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## *Smart Vaccines Work*

The starting point for the development of smart vaccines is the human immune system, and the way it tackles a given disease. The molecules detected with the help of the human immune system are the most effective. Our core technologies provide an outstanding source of our own products, and give rise to lucrative partnerships. This is what makes our company competitive.

The information for identification of antigens is imprinted in antibodies from individuals who have had an encounter with a specific pathogen and have destroyed it through their antibody response. By carefully analyzing a patient's response, it is possible to learn which antigens his/her immune system recognized and how it threw off the disease. These findings open the way for eradicating a pathogen and developing a vaccine.

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## *Antigen Identification Technology*

In 2003 we continued to use our proprietary technologies to identify novel antigens on human pathogenic bacteria. So far, antigens from 11 bacteria have been identified.

This successful program has led to cooperations with Aventis Pasteur and another large vaccine manufacturer. It has delivered protective antigens that will be used for our own product development. These are vaccines for *S. pyogenes*, *S. pneumoniae*, traveler's diarrhea and *S. agalactiae*. For cases where T-cell immunity plays an impor-

tant role, e.g. chronic viral infections, we have developed a proprietary technology to identify T-cell epitopes, which can likewise be used as antigens for vaccination. We have employed this method to identify highly promising T-cell epitopes for the Hepatitis C virus.

In 2004 we will use our antigen identification technologies to identify antigens on *Enterococcus*, *Borrelia* and *Klebsiella pneumoniae*. In addition, we will work on a bacterial target together with an industrial partner.



4ward to Science

## *Immunizers*

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Our Immunizers address an unmet need because they induce cellular immunity, and can be used together with peptide antigens and recombinant proteins. Existing adjuvants on the market only induce antibodies but no T-cell immunity.

IC30-Poly-L-Arginine – a polycation, is in clinical trials and data demonstrate that it is a potent inducer of T-cells in humans.

The findings of a benchmarking study have prompted Denmark's Statens Serum Institut to opt for our IC31 Immunizer for the development of a novel tuberculosis vaccine. IC31 combines a IC30 derived peptide with an immunostimulatory oligonucleotide that optimally synergize with each other to induce both a strong B- and T-cell immunity. IC31 has all the reported advantages of immunostimulating oligonucleotides tested in clinical trials but does not need a chemical modification of its DNA backbone and is protected by a strong IP position. SSI is a recognized world class player in tuberculosis vaccines. During the year we also generated data demonstrating that the compound has a favorable toxicological profile. We also established the formulation, analytics and production of IC31. In addition, we assembled a large set of data in two drug master file-like documents that will allow cooperation partners to use these compounds to develop their vaccines.

The Immunizers will be used in our own projects and offered to industrial partners.

## Facts » SMART VACCINES

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*The work of Intercell researchers is principally based on two novel high-tech programs. Using these proprietary technologies, Intercell is creating a revolutionary new generation of smart vaccines.*

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**ANTIGEN IDENTIFICATION TECHNOLOGIES** » To develop effective prophylactic and therapeutic vaccines, Intercell has created a powerful approach for identifying most, if not all, vaccine suitable antigens for a whole range of bacterial pathogens. In pursuit of this goal, Intercell uses state-of-the-art molecular and serological methods to identify pathogen structures that are recognized by the human immune system. Once these antigens are molecularly characterized, copies of them are synthesized to become part of vaccines. In disease settings where cellular immunity (so called T-helper and T-killer cells) are crucial, our researchers are using a platform technology that permits the identification of disease relevant T-cell epitopes (peptides). Typically, several hundred overlapping synthetic peptides spanning the full sequence of the antigen of interest are synthesized in house. These are screened using T-cells from humans or “humanized” HLA transgenic mice. This technology allows the identification of T-cell epitopes in any viral or cancer antigen of interest.

**IMMUNIZER (adjuvants)** » Vaccines based on antigens alone are not sufficient to provide full protection, since antigens on their own are not sufficiently immunogenic. Intercell’s proprietary immunizers are needed to activate the immune system to mount a powerful antigen-specific immune response to kill pathogens expressing the antigens contained in the vaccine. Adjuvants currently on the market mainly stimulate B-cell responses and thus antibody production. Our immunizers have the unusual and highly beneficial property of inducing T-cell immunity, in addition to antibody mediated immunity. The T-cells recognize and eliminate diseased cells. This technology is used for the development of new, and for the improvement of existing vaccines.



4ward to Science

## *Patents – the Backbone of our company*

Intercell's commercial success depends heavily on its intellectual property position. We need adequate patent protection of our products and processes, and freedom to operate our business without infringing third-party patent and proprietary rights.

The primary strategic focus is on protecting and strengthening our key products and technologies by means of aggressive patent filing and prosecution. We act to preemptively protect all inventions made by our scientists, and collaborative research of potential commercial value.

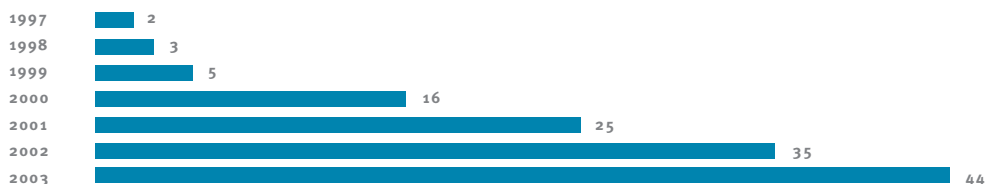
To date, our patent portfolio includes about 45 families of patents, covering both products and technologies. Our Antigen Identification technology and products, including more than 1,000 antigens from different pathogens, are covered by nearly ten patents or patent applications. Our Immunizer technologies and products are covered by a number of patents or patent applications. A European patent has recently been granted which covers our IC31 lead Immunizer. Patents and patent applications are also in place to protect the products we are developing.

## *Patent portfolio*

Our other main focus involves in-depth due diligence analysis of the freedom-to-operate issues associated with all of our clinical developing products. Upon identifying any third-party patent rights that may affect our development and operation, we either proactively negotiate to

acquire a license from the patent holder or instigate invalidation proceedings. This approach led to the acquisition of a number of worldwide, exclusive licenses for the development and commercialization of our clinical products IC41 and IC51.

### PATENT PORTFOLIO »



## *Scientific publications*

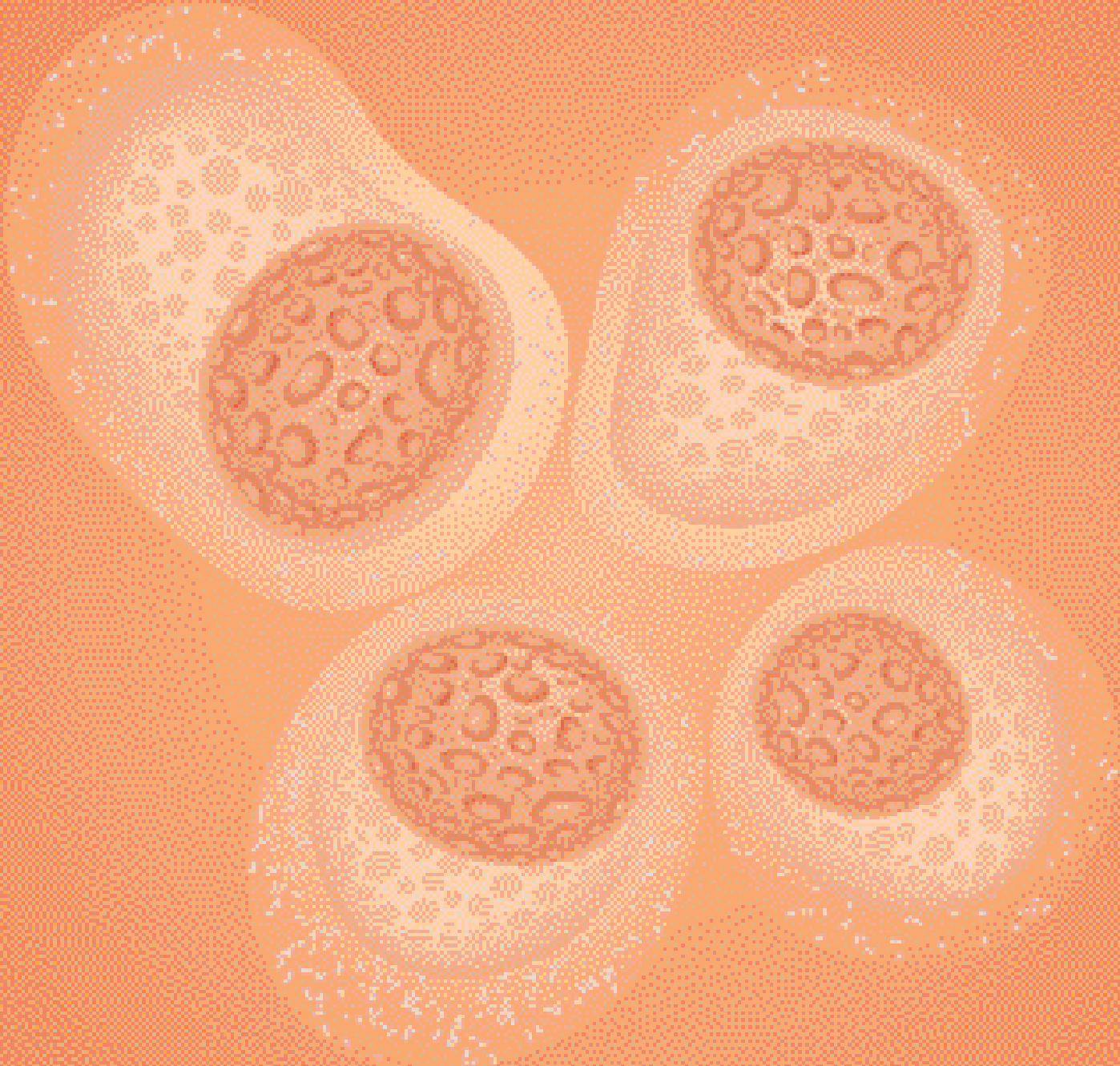
There is along list of scientific publications about our technologies and products available. We value the discussion and critical dialogues with the scientific community as a very important source

for our future development. A full list of scientific publications is available on our webpage.

# 4ward *to Returns*

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4ward to Returns



## *4ward to Returns on Investment*

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Werner Lanthaler is responsible for finance, administration, human resources, and public and investor relations. He joined Intercell from the Federation of Austrian Industry where he

„How can we spend money more efficient than to invest it in the development of vaccines to fight infectious diseases and cancer.“

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was Head of Marketing and Communications, having previously been a senior management consultant at McKinsey & Company.

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## *Financial Strength*

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Biotech is about allocating scarce financial resources as effective as possible. When it comes to the financials of this company, we always followed a very easy rule of thumb: “To manage costs as carefully as possible, and to raise money while you still have some.” In order to maximize value generation we cannot allow any slowdown of any product development due to limited resources. Following our vision to develop a long term and sustainable company we went out in the most difficult times to complete our third financial round in 2003. As a result we managed to raise the largest financial round in Europe in the year 2003. The quality of investors behind this round speaks for itself: Apax Partners, Global Life Science Ventures, MPM Capital, Nomura, TVM, Star Ventures. This group of investors built probably one of the strongest funding consortium for the whole European Biotech. To illustrate this a little more: the € 43,5 million raised by Intercell in 2003 are more than one fourth of the total bio-

tech venture investments made in Germany, Austria and Switzerland all together this year.

On our way forward we try to put our funds to work as effectively as possible. We drive ahead multiple products in development programs. The development of novel vaccines in large clinical trials is our main area of spending. In this field we try to collaborate with the best clinical centers and partners possible. For an advanced biotech operation like Intercell another major area of resource allocation consists of our manufacturing capabilities and partnerships. Another highlight in the past month was the successful acquisition of a full manufacturing site in Scotland. Our new capability to produce our vaccines for Japanese Encephalitis up to commercial scale puts us in a unique competitive position.

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We are proud that Intercell in its very early stage managed to achieve what most Biotechs long for: a true commercial validation for its technologies from prime Pharma Partners. It fills us with pride that e.g. Aventis Pasteur or the Statens Serum Institut use our technologies for their product development programs. And a top revenue line with such a positive outlook is

a great asset to have and should be the best argument for any future investment in Intercell.

As a flagship of the Vienna biotech industry, we also want to point out that we receive ongoing support from Austrian state agencies, through subsidized loans and R&D grants.

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## Why invest in Biotech?

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Apax Partners believes that venture capital is crucial to generating entrepreneurialism and improving the economy. To date, Apax Partners has raised and advised on over USD 12 billion around the world, and invested in more than 500 companies, making it one of the world's leading equity firms. *Catbrin Petty*, the health care specialist with the Apax team in the UK, serves on Intercell's Supervisory Board.

„Apax' decision to back Intercell was due to the strength of the management team and the excellent progress made by its technologies and product development programs.

Knowing that investing in a biotech company means a considerable period of planned losses, venture capital investors must strike a balance between visionary aims and reasonable progress towards commercial success. Apax believes that Intercell's scientists and management will deliver both. Vaccination will become more effective, and will be the most economic form of health care. We see Intercell becoming one of the top players in the up-and-coming vaccine market.“

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*MPM Capital* is the world's largest dedicated investor in life sciences. With committed capital under active management of more than \$2.1 billion, MPM is uniquely structured to invest globally in healthcare innovation. In addition to its BioVentures family of venture capital funds, MPM invests in the public markets through its BioEquities hedge fund. *Dr. Luke Evinin* is a General Partner at MPM Capital and also a Supervisory Board member.

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"MPM Capital invests solely in healthcare and the life sciences. We firmly believe that biotechnology offers the best avenue to new therapies and preventatives for significant medical needs, and also the best returns for our investors. We invest globally, and Europe continues to be an important part of our portfolio. Intercell has the people, the technology, and the ideas to make very important advances in areas of medicine that have seen all too little fundamental transformation."

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4ward to Returns

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*Nomura International plc* has one of the largest integrated investment teams in Europe dedicated to the healthcare sector. The Biopharma Private Equity Group is an independent team focusing on venture capital investments in later stage therapeutics and medical devices companies in North America and Europe. *Dr. Denise Pollard-Knight* heads the Biopharma Private Equity Group.

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“Nomura initially invested in Intercell in November 2000 following a review of a number of opportunities in the vaccine space in North America and Europe. Although some of the other opportunities were more mature, the integrated nature of the discovery engine at Intercell with both antigen and immunizer research combined with a core management team and a clear product focus set the company apart.

Since our investment, Intercell has gone from strength to strength with important additions to the management team and two products now in late stage human clinical trials. The team is backed by significant financial resources following the largest European private financing in 2003 in which Nomura also participated. We have high expectations for the company again in 2004!

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*Techno Venture Management* is one of the first venture capital funds formed in Germany and a leader in transatlantic operations. TVM has focused on information & communications technology and life sciences, high growth sectors where innovation, effective management and sound financial backing have enormous impact on company growth. TVM funds have made investments in over 200 technology companies throughout Europe and the United States. *Dr. Helmut Schübler*, managing Partner at TVM and Supervisory Board member:

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„We believe that health care as a market, and specifically biotechnology as a subgroup of the pharmaceutical industry is an exciting space to make investments in. There is long-term stability and upside, paired with size and good margins. Innovation is a key driver of this market which will also have its challenges, especially on the finance ability of public reimbursement for innovative products, the mainstay of the biotech industry. We picked Intercell because we have been interested in vaccine development as a major opportunity alongside drug development, and we were attracted by the excellent team and the positive political and economic environment in Vienna.“

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Global Life Science Ventures (GLSV) is a leading, independent venture capital fund focusing exclusively on the life sciences. GLSV is dedicated to supporting early-stage groups and selected later stage companies, originating from universities, scientific institutions or industry. The group currently advises and manages funds greater than € 200 million. *Hans Küpper* serves on Intercell's Supervisory Board:

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„The ongoing innovative developments in the biotech industry will have a huge impact on future health care and on our society in general. By investing in this industry we believe that we can support these new developments and participate in the value growth of the emerging biotech products. Intercell, with their novel approach to vaccines, is one of the outstanding companies in the biotech industry.“

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4ward to Returns

## Facts » FINANCE

*Over the past five years, venture capital investors have faced the bursting of many biotech bubbles. On the upside, this means that now the hype is over, what remains are sustainable businesses. For instance, Intercell's investors are starting to see that a biotech company can deliver not just smart health care but returns as well.*

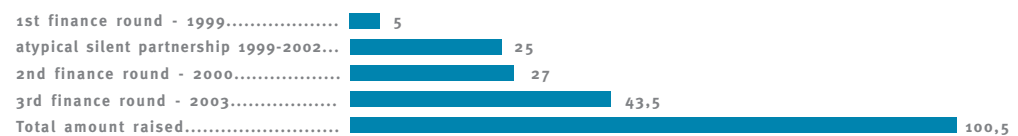
Like any new company devoted to bringing a revolutionary technology to market, from the outset Intercell budgeted for several years of losses. Now, after five years of research and clinical testing, we have a healthy revenue stream. In 2003 we made a giant step forward by generating income from technologies, and there is already every indication that this trend will continue in 2004.

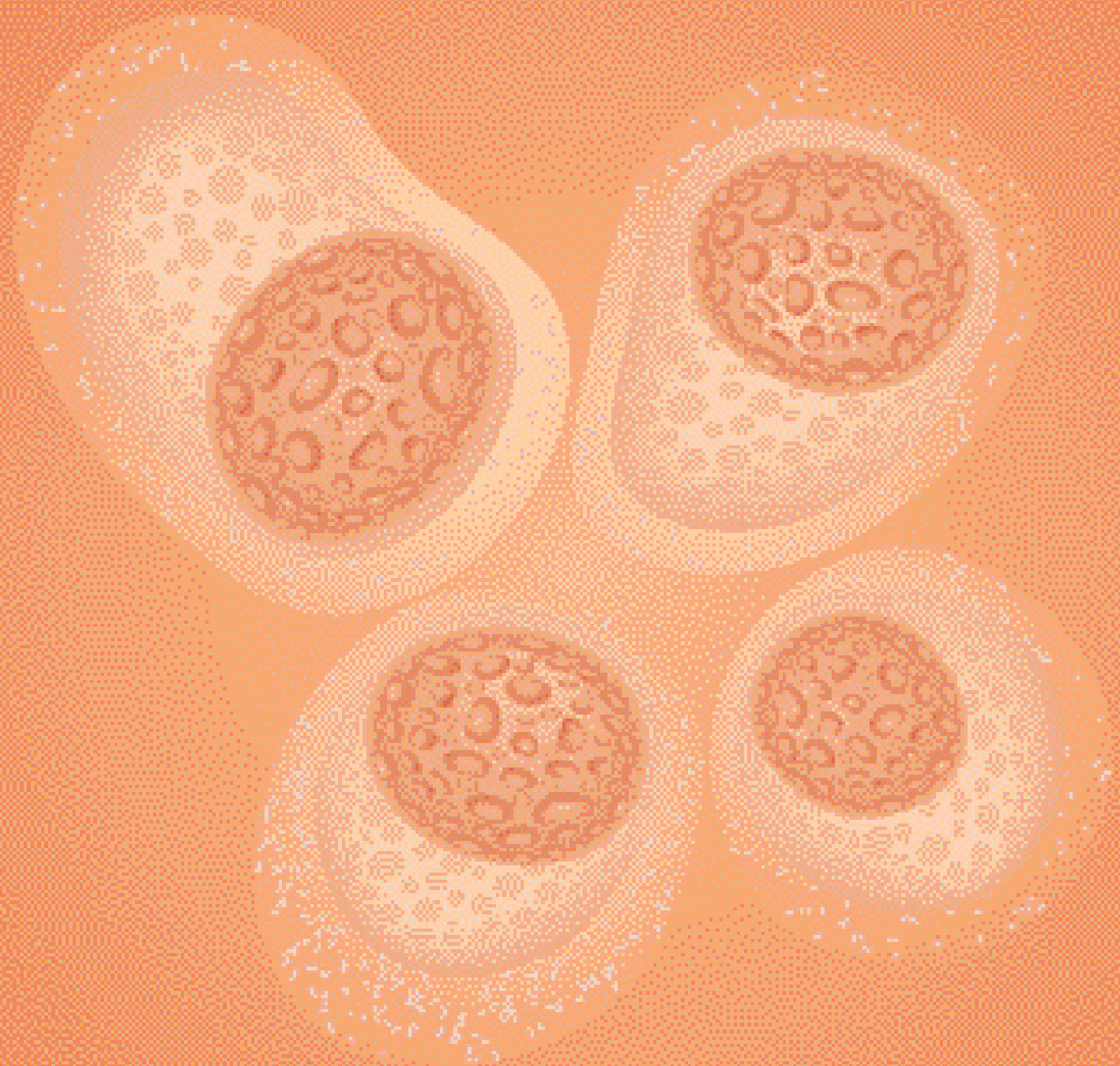
As the product pipeline shows, the founder years are over, and up to 2007 own income will increasingly be meeting our capital requirements. Our success is no longer measured exclusively by our research and development progress, and we are beginning to balance the scales of investment and returns.

Apart from the strong backing given by several public agencies, we owe our success to international specialist biotech investors, and to a well thought-out business plan that has never encouraged unrealistic expectations. Due to this and last year's results, investor confidence in us is stronger than ever, and we have been attracting new money. The third investment round, closed in 2003, has underpinned our financial security.

### TO FINANCIAL STRENGTH >>

#### FINANCE HISTORY in € million





## Management Board

“Biotechnology is a global business. Investors locate promising companies and analyze their business environment. We have managed to raise more than € 100 million in venture capital so far, and closed a third investment round totaling € 43.5 million last year. That was the largest biotech investment in Europe over the past 24 months. If there is quality – Biotech can be made all around the world.” ALEXANDER VON GABAIN

### ALEXANDER VON GABAIN, CEO

A Co-founder of Intercell AG. Alexander von Gabain was previously chairman of the Department of Microbiology and Genetics at the renowned University of Vienna, following a scientific career that took him to Heidelberg, Stanford and the Karolinska institute in Stockholm.

### WERNER LANTHALER, CFO

Responsible for finance, administration, human resources, and public and investor relations. Werner Lanthaler came to Intercell from the Federation of Austrian Industry where he was Head of Marketing and Communications, having previously been a senior management consultant at McKinsey & Company.

### GERD ZETTLMEISSL, COO

Before joining Intercell Gerd Zettlmeissl headed worldwide manufacturing and quality operations at Chiron Vaccines, and was CEO of the leading German vaccine producer Chiron Behring. He is the author of numerous scientific publications and the holder or co-holder of numerous biotechnology patents.

### MICHAEL BUSCHLE, CSO

A co-founder. His previous career included work at the Royal Free Hospital School of Medicine, London, UK, the St. Jude children's research hospital, Memphis, Tn, USA, and the pharmaceutical company Boehringer Ingelheim. He is the holder of several vaccine and biotechnology patents.

### JUERGEN FRISCH, CMO

Jürgen Frisch is Intercell's Chief Medical Officer, and is responsible for clinical development and regulatory issues. He has extensive experience of pharmaceutical development at international companies including Behringwerke, Hoechst Marion Roussel and Aventis. Prior to his industrial career he was managing and medical director at the Munich University Institute of Human Genetics.

# Supervisory Board

„Over the last decade, the vaccine market has grown faster than the global pharmaceutical market. This trend will continue in the present decade, linked to the ever increasing demand for existing vaccines, as well as the huge innovation potential offered by biotechnologies.“ MICHEL GRÉCO

## ERNST-GÜNTER AFTING, CHAIRMAN

President and CEO of the GSF-natl. Research Center for Environment and Health, Munich – one of the largest Government funded research centers in Germany, with over 1,600 scientists and other staff.

## MICHEL GRÉCO

Deputy CEO of Aventis Pasteur until early 2003. He is one of the leading experts in the global vaccine industry and serves on the Boards of several biotech companies and non-profit institutions including the International Aids Vaccine Initiative (IAVI) and the Aeras Global TB Vaccine Foundation. He is also an advisor to the WHO on vaccines.

## HELMUT SCHÜHSLER

Managing Partner of German-US Venture Capital firm TVM and head of TVM's life science practice. Helmut Schühslers has an international reputation as a financier of biotechnology companies in Europe and the USA.

## CATHRIN PETTY

Cathrin Petty is Healthcare Director of Apax Partners, London, UK – a private equity firm which has raised and advised on over USD 12 billion and invested in more than 500 companies around the world.

## MICHAEL STRANZ

Michael Stranz joined the Kapital & Wert Group in 1982. He was appointed CEO of AT Treuhandbeteiligungs GMBH, a subsidiary of the Kapital & Wert Group, in 1986. Since June 2000 he has been Chairman of Kapital & Wert AG.

## HANS KUEPPER

Hans Kuepper joined Global Life Science Ventures as a partner in 1999, held various management positions in the biotech and the pharmaceutical industries. He is the author of numerous publications and holder of patents and patent applications. He has acted as a consultant to pharmaceutical companies and the European Commission.

## *Supervisory Board*

### DAVID EBSWORTH

David Ebsworth is a life science consultant to Nomura, and currently serves on the boards of Betapharm GmbH, Curagen Corp, Skyepharma inc and Willex AG.

### LUKE EVNIN

Luke Evnin is a general partner at MPM Capital — the largest venture capital firm dedicated to Life Sciences, with over USD 2.1 billion in assets under management. He has over 12 years' experience of biopharmaceutical, pharmaceutical, medical device and healthcare service company investing at MPM and was previously a partner at ACCEL partners.

### OTELLO STAMPACCHIA (OBSERVER)

Otello Stampacchia heads life science investments at NIB Capital Private Equity — one of the world's largest private equity investment firms with over EUR 15 billion of funds under management.

## *Scientific Advisory Board*

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intercell  
ANNUAL REPORT 2003

“Combined with genomic information, Intercell’s molecular display techniques permit precise identification of immunogenic peptide sequences in proteins. These peptides, combined with Intercell’s Immunizers, promise a new generation of safe and effective vaccines for infectious diseases.” HAMILTON SMITH

### MAX BIRNSTIEL, CHAIRMAN

Chairman of Intercell’s Scientific Advisory Board, and a member of the Supervisory Board. Max Birnstiel is a co-founder of Intercell and founding director of the Institute of Molecular Pathology (IMP), Vienna, Austria.

### HAMILTON SMITH

Hamilton Smith won the nobel prize for Physiology and Medicine in 1978, and is a co-founder of the Institute for Genomic Research (TIGR). At present he works as Senior Director of DNA resources at Celera Genomics.

### STAFFAN NORMARK

Professor at the Microbiology and Tumor Center Biology Center at the Karolinska Institute, in Stockholm, Sweden. Staffan Normark is a member of the Nobel Prize committee for medicine and Executive Director of the Swedish foundation for strategic research.

### HANS STRANDER

Professor and former section head of the Oncology Department, Radiumhemmet, Karolinska Hospital, Sweden. Former Professor of Oncology and Radiotherapy at the Karolinska Institute, Sweden. Hans Strander was among the pioneers of Interferon treatment at the clinic. He has acted as a consultant for the UICC, EU and WHO, and is the author of many renowned scientific papers.

### CHARLES WEISSMANN

Currently works at the Institute of Neurology at University College, London, UK. Charles Weissmann co-founded Biogen, the first European biotechnology company, in 1978.

### DAVID HIRSH

He is currently Executive Vice President for Research at Columbia University. Previously he was chairman of the Department of Biochemistry and Molecular Biophysics at Columbia; and was Executive Vice President at Synergen, Inc. He is a director of Zymogenetics, Inc. and serves as a trustee of Rockefeller university.

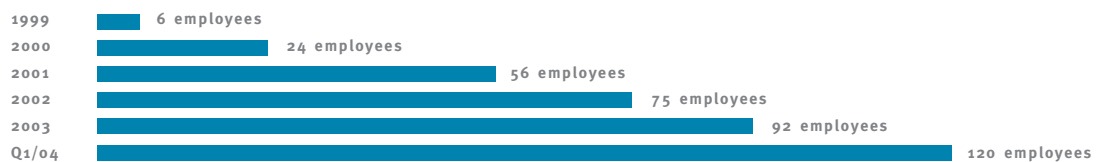
## Facts » HUMAN RESOURCES

*Intercell is a young company with a highly motivated workforce of more than 120, from 12 different nations.*

Intercell's corporate culture reflects the international character of its highly qualified and motivated workforce. Our people are united by a burning ambition to develop a new generation of vaccines. We empower them to attain their personal goals and those of the company in an environment that is multicultural, supportive and well structured.

Since Intercell became operational in 1999, the head count has risen from six to 120. Some 21 new team members, including 13 graduates, were recruited in 2003. Some 67% of the workforce are engaged in research and development, and have a scientific or medical training. In total 45 team members or 48.9% of Intercell's staff are graduates. We are also proud of the fact that 56.5% of our employees are women.

### GROWTH OF INTERCELL'S TEAM >>



### EMPLOYEE STRUCTURE >>

Research & development	67%
Staff scientists	35%
Technicians	32%
Administrative staff	29%
Phd students	2%
Diploma Students	2%
General & administration	33%

# Glossary

**ADJUVANT (IMMUNIZER):** A material that increases the formation and persistence of immunity when the patient is injected with an immunogen.

**AIP:** The Antigen Identification Program.

**AMINO ACID:** A protein building block. There are 20 common amino acids.

**ANTIBODY:** A protein produced in response to the presence of a specific antigen; binds epitopes.

**ANTIGEN:** A substance to which an antibody will bind specifically.

**AVP:** The Antigen Validation Program.

**BIOTECHNOLOGY:** The use of living organisms or their subcellular components to develop useful products, processes or services.

**B-CELLS:** One of the two major types of lymphocytes (white blood cells), released from the bone marrow; produce antibodies.

**CELL:** The smallest structural unit of a living organism.

**CHROMOSOME:** A long DNA molecule which includes many genes.

**CLINICAL STUDIES:** Human studies that are designed to measure the efficacy of a new drug or vaccine.

**CLONES:** Genetically identical cells.

**DNA:** Deoxyribonucleic acid, the carrier of genetic information.

**EPITOPE:** The part of an antigen that is capable of being directly bound by an antibody.

**GENOME:** The sum total of the hereditary information of an organism.

**IMMUNIZER:** A proprietary Intercell adjuvant.

**IMMUNOGEN:** A substance that causes immunity; contains antigens.

**JEV:** Japanese Encephalitis Virus

**LYMPHOCYTES:** White blood cells.

**MOLECULE:** A particle consisting of two or more atoms.

**NUCLEOTIDE:** The basic building block of DNA.

**OLIGONUCLEOTIDE:** A short DNA molecule.

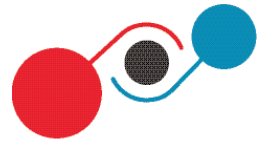
**PATHOGEN:** A disease-causing organism.

**PEPTIDE:** A short chain of amino acids.

**PROTEIN:** A long chain of amino acids.

**T-CELLS:** White blood cells; help B-cells make antibodies and eliminate infected cells.

**VIP:** The Vaccine Improvement Program.



intercell  
SMART VACCINES

*Financial Report*

## *Contents*

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## Financial Review

The financial success of a biotech company, which develops novel pharmaceuticals but has not yet a product on the market, is defined by its ability to raise capital for its research and product development activities. In 2003 Intercell has again proven its outstanding position within the European biotech scene by completing an € 43.5 million private equity placement with world leading venture capital investors. This financing leaves the company with liquid reserves of € 35.6 million at year-end compared to € 24.9 million in 2002. Another € 17.4 million from the 43.5 million financing will be paid in by mid 2004, bringing the total of disposable and committed funds to € 53 million.

Research and development expenses rose by almost 30 % to € 15.4 million in the fiscal year 2003, reflecting the fact that the company has two phase 2 clinical products and a broad pre-clinical R&D platform. Sales, general and administration expenses rose by 17 % to € 3.5 million, which is

18 % of the total operating expenses of the company. Revenues stayed roughly flat on a year-on-year basis at € 2.7 million with the major part still coming from public R&D funding and grants.

Our net loss for the year 2003 was up by 28 % to € 15.8 million, compared to € 12.3 million in 2002. The number of employees at year-end was 92, versus 95 in 2002. Subsequent to the balance sheet date we have acquired a modern biopharmaceutical production plant in Livingston, Scotland for approximately € 3.5 million and taken over 24 qualified employees. For the year 2004 Intercell anticipates again a significant rise in the level of R&D expenditure but also expects an increasing contribution from collaboration and licensing revenues to cover a part of these costs.

### FINANCIAL HIGHLIGHTS >>

(EUR MILLION)	2003	2002	2001	2000
Revenues	2.7	2.5	2.1	0.7
EBITDA	(15.5)	(12.2)	(7.8)	(6.3)
Net loss	(15.8)	(12.3)	(7.8)	(6.8)
Net operating cash flow	(13.7)	(11.5)	(8.2)	(7.3)
Cash and marketable securities, year end	35.6	24.9	30.5	20.5

## *Independent Auditors' Report*

To the Management Board and Members of the Supervisory Board of INTERCELL AG

Dear Sirs,

We have audited the accompanying consolidated balance sheet of INTERCELL AG, Vienna, as of 31 December 2003 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We have conducted our audit in accordance with International Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the above-mentioned consolidated financial statements present fairly, in all material respects, the financial position of INTERCELL AG, Vienna, as of 31 December, 2003, and the results of its operations and its cash flows for the year then ended in accordance with US Generally Accepted Accounting Principles (US GAAP).

Without qualifying our opinion, we draw attention to the following matters:

- >> Note 2 in the Consolidated Financial Statements indicates that the Company is a development stage company and has incurred a net loss of EUR 48,319,865 since inception. It describes that the Company, currently mostly being financed by venture capital, is subject to all risks inherent in the establishment of a new business. While the Company believes that its working capital resources are sufficient to satisfy its liquidity requirements over the next two and a half years, assuring the Company's long-term liquidity needs will require further capital increases and successful commercialisation of proprietary technologies until the own product candidates of INTERCELL AG, Vienna, will reach the marketing stage. Failure of such development and marketing successes may in future periods indicate the existence of a material uncertainty regarding the Company's ability to continue as a going concern.
- >> Note 14 (b) in the Consolidated Financial Statements explains the accounting treatment of venture capital contributions having been made under the legal form of a "silent partnership" provided under Austria law.

Vienna, 30 April 2004, PwC Wirtschaftsprüfung AG, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft



DR. ASLAN MILLA  
CERTIFIED PUBLIC ACCOUNTANT



DKFM. FRANZ GOGG  
CERTIFIED PUBLIC ACCOUNTANT

*Consolidated Income Statements*

amounts in Euro	Note	Year ended Dec. 31, 2003	Year ended Dec. 31, 2002	Inception* to Dec. 31, 2003
<b>Revenues</b>				
Revenues from collaborations and licensing	3	637,500	478,259	1,314,219
Public subsidies	3,16	2,108,571	2,063,456	7,530,775
<b>Operating expenses</b>				
Research & development costs	3	(15,437,666)	(11,932,640)	(45,001,750)
Sales, general & administration cost		(3,455,832)	(2,959,204)	(12,444,956)
Other operating income (expenses)		18,176	(432,316)	(956,916)
<b>Operating loss</b>		<b>(16,129,251)</b>	<b>(12,782,445)</b>	<b>(49,558,628)</b>
<b>Financial income</b>				
Interest income, net		(141,281)	408,510	671,148
Realized gain from the sale of securities		463,480	15,067	492,029
<b>Net loss before taxes, minority interest and equity in earnings of associated companies</b>		<b>(15,807,052)</b>	<b>(12,358,868)</b>	<b>(48,395,452)</b>
Income tax credit	11	45,465	83,723	13,259
Minority interest		0	22,472	66,703
Equity in earnings of associated companies	3	(4,375)	0	(4,375)
<b>Net loss</b>		<b>(15,765,962)</b>	<b>(12,252,673)</b>	<b>(48,319,865)</b>
<b>Other comprehensive income (expenses), net of tax</b>				
Unrealized holding gains (losses) on securities arising during the period		(75,464)	270,322	97,199
Foreign currency translation adjustments		12,770	14,062	24,340
Total other comprehensive income (loss)		(62,694)	284,384	121,539
<b>Comprehensive loss</b>		<b>(15,828,656)</b>	<b>(11,968,289)</b>	<b>(48,198,326)</b>

The accompanying notes form an integral part of these consolidated financial statements.

\* Date of Inception: December 3, 1997

## Consolidated Balance Sheet

The accompanying notes form an integral part of these consolidated financial statements.

amounts in Euro	Note	Dec. 31, 2003	Dec. 31, 2002
<b>Assets</b>			
<b>Current Assets</b>		<b>36,893,794</b>	<b>14,046,724</b>
Cash & cash equivalents	3	24,621,167	4,162,383
Available-for-sale securities, short-term	6	10,945,297	8,456,469
Trade accounts receivable		660,000	238,390
Accounts receivable from associated companies		28,826	0
Prepaid expenses & other current assets	4	638,504	1,189,482
<b>Non-current Assets</b>		<b>3,417,329</b>	<b>16,052,515</b>
Property, plant & equipment	5	2,673,241	2,952,111
Available-for-sale securities, long-term	6	0	12,285,922
Loans to management	17	741,000	753,790
Other non-current assets, restricted	7	3,088	60,692
<b>Total Assets</b>		<b>40,311,123</b>	<b>30,099,239</b>
<b>Liabilities &amp; Stockholders' Equity</b>			
<b>Current Liabilities</b>		<b>6,303,957</b>	<b>2,987,116</b>
Current portion of long-term debt	9	1,679,668	654,055
Trade accounts payable		1,286,287	889,105
Accrued expenses and other current liabilities	8	2,056,277	1,223,812
Deferred income, short-term		1,281,725	220,143
<b>Non-current Liabilities</b>		<b>5,736,096</b>	<b>7,645,733</b>
Long-term debt	9	5,736,096	7,385,617
Employee-related obligations	10	0	260,116
<b>Shareholders' Equity</b>	<b>14</b>	<b>28,271,070</b>	<b>19,466,390</b>
Share capital		239,411	121,842
Additional paid-in capital		56,664,506	31,455,620
Contributions from silent partners		20,498,755	20,702,242
Treasury stock	15	(933,275)	(443,643)
Deficit accumulated during the development stage		(48,319,865)	(32,553,904)
Accumulated other comprehensive income and expenses		121,539	184,233
<b>Total Liabilities &amp; Shareholders' Equity</b>		<b>40,311,123</b>	<b>30,099,239</b>

## Consolidated Cashflow Statements

amounts in Euro	Year ended Dec. 31, 2003	Year ended Dec. 31, 2002	Inception* to Dec. 31, 2003
<b>Cash flows from operating activities</b>			
Net loss	(15,765,962)	(12,252,673)	(48,319,865)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation and amortization	615,159	563,213	2,105,661
Other adjustments of non-cash items	(454,028)	36,253	(458,314)
Deferred income	1,061,582	109,077	1,281,725
Decrease (increase) in loans to management and employee-related obligations	(247,326)	100,814	(741,001)
Decrease (increase) in trade accounts receivable	(450,435)	(238,390)	(688,825)
Increase (decrease) in trade accounts payable	410,779	260,106	1,260,550
Decrease (increase) in other current assets	550,978	8,683	(638,504)
Increase (decrease) in other current liabilities	628,978	(97,645)	1,852,791
<b>Net cash used in operating activities</b>	<b>(13,650,275)</b>	<b>(11,510,563)</b>	<b>(44,345,782)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(359,339)	(959,688)	(4,769,845)
Investments in available-for-sale securities	(38,072,919)	(27,793,824)	(85,164,098)
Proceeds from the sale and maturity of available-for-sale securities	48,258,028	23,550,000	74,808,028
Disposal of subsidiary, net of cash	0	0	(17,034)
<b>Net cash provided by investing activities</b>	<b>9,825,770</b>	<b>(5,203,512)</b>	<b>(15,142,950)</b>
<b>Cash flows from financing activities</b>			
Increase (decrease) in long-term debt	(623,907)	2,132,086	7,415,764
Proceeds from silent partners	0	4,384,199	20,702,242
Proceeds from issuance of stock	25,326,454	25,020	56,903,917
Buy-back of common stock	(489,632)	(28,142)	(933,275)
<b>Net cash provided by financing activities</b>	<b>24,212,915</b>	<b>6,513,163</b>	<b>84,088,648</b>
Effect of exchange rate fluctuations	12,770	14,061	24,340
Decrease (increase) in restricted cash	57,604	52,287	(3,088)
Increase (decrease) in cash and cash equivalents	20,458,784	(10,134,565)	24,621,167
Cash and cash equivalents at beginning of period	4,162,383	14,296,950	0
<b>Cash and cash equivalents at end of period</b>	<b>24,621,167</b>	<b>4,162,383</b>	<b>24,621,167</b>
Supplemental information			
Interest paid	188,395	171,579	603,740
Income taxes paid (credited)	(45,465)	(83,723)	(13,259)
<b>Cash, short-term deposits and marketable securities at end of period</b>	<b>35,566,465</b>	<b>24,904,774</b>	<b>35,566,465</b>

The accompanying notes form an integral part of these consolidated financial statements.

\* Date of Inception: December 3, 1997

## *Consolidated Statements of Changes in Shareholders' Equity*

amounts in Euro (other than shares)	Registered share capital		Additional paid-in capital
	shares	amount	
Initial capitalization December 3, 1997		18,168	
Net loss			
<b>BALANCE AT DECEMBER 31, 1997</b>		<b>18,168</b>	
Registered capital paid in August 12, 1998		18,168	
Capital increase 26 August, 1998 (preferred capital series A)		13,445	713,284
Cost of equity transactions			(103,125)
Net loss			
<b>BALANCE AT DECEMBER 31, 1998</b>		<b>49,781</b>	<b>610,159</b>
Capital increase 22 January 1999 (preferred capital series A)		2,108	676,148
Additional capital paid in March 3, 1999*			1,711,445
Silent partnership contribution June 30, 1999			
Additional capital paid in July 16, 1999*			468,740
Cost of equity transactions			(27,013)
Net loss			
<b>BALANCE AT DECEMBER 31, 1999</b>		<b>51,889</b>	<b>3,439,479</b>
Capital increase and conversion into stock corporation September 28, 2000	72,740	20,851	1,575,362
Silent partnership contribution September 30, 2000			
Issuance of preferred stock series B (550 euro per share) November 30, 2000	49,102	49,102	13,451,001
Share buy-back (equity incentive plan)			
Cost of equity transactions			(381,064)
Net loss			
<b>BALANCE AT DECEMBER 31, 2000</b>	<b>121,842</b>	<b>121,842</b>	<b>18,084,778</b>
Additional capital paid in June 18, 2001**			6,750,052
Silent partnership contribution September 28, 2001			
Additional capital paid in December 17, 2001**			6,725,032
Share buy-back (equity incentive plan)			
Cost of equity transactions			(129,261)
Net loss			
<b>BALANCE AT DECEMBER 31, 2001</b>	<b>121,842</b>	<b>121,842</b>	<b>31,430,601</b>
Additional capital paid in January 7, 2002**			25,019
Silent partnership contribution September 30, 2002			
Share buy-back (equity incentive plan)			
Cost of equity transactions			
Net loss			
<b>BALANCE AT DECEMBER 31, 2002</b>	<b>121,842</b>	<b>121,842</b>	<b>31,455,620</b>
Issuance of preferred stock series C (370 euro per share) July 14, 2003	81,082	81,082	2,991,926
Issuance of preferred stock series C (370 euro per share) November 20, 2003	36,487	36,487	1,346,370
Additional capital paid in December 19, 2003***			21,691,482
Share buy-back (equity incentive plan)			
Cost of equity transactions			(820,891)
Net loss			
Drawing of silent partnership contribution			
<b>BALANCE AT DECEMBER 31, 2003</b>	<b>239,411</b>	<b>239,411</b>	<b>56,664,506</b>

The accompanying notes form an integral part of these consolidated financial statements.

\* Relates to capital increase dated August 26, 1998

\*\* Relates to capital increase dated November 30, 2000

\*\*\* Relates to capital increases dated July 14, 2003 and November 20, 2003

Contributions from silent partners	Treasury stock		Deficit accumulated during development stage	Accumulated other comprehensive income (loss)	Total
	shares	amount			
					18,168
			(4,913)		(4,913)
			<b>(4,913)</b>		<b>13,255</b>
					18,168
					726,729
					(103,125)
			(698,024)		(698,024)
			<b>(702,937)</b>		<b>(42, 997)</b>
					678,256
					1,711,445
5,087,171					5,087,171
(903,308)					468,740
			(5,055,442)		(5,055,442)
<b>4,183,863</b>			<b>(5,758,379)</b>		<b>1,916,852</b>
					1,596,213
					8,720,814
8,720,814					13,500,103
	1,383	(316,430)			(316,430)
(4,012,490)			(6,777,963)	255	(4,393,554)
<b>8,892,187</b>	<b>1,383</b>	<b>(316,430)</b>	<b>(12,536,342)</b>	<b>255</b>	<b>(6,777,708)</b>
					6,750,052
6,349,062					6,349,062
	433	(99,070)			6,725,032
(67,705)			(7,764,886)	(100,408)	(196,966)
<b>15,173,544</b>	<b>1,816</b>	<b>(415,500)</b>	<b>(20,301,228)</b>	<b>(100,153)</b>	<b>25,909,106</b>
					25,019
5,584,544					5,584,544
	123	(28,143)			(28,143)
(55,846)			(12,252,673)	284,384	(11,968,290)
<b>20,702,242</b>	<b>1,939</b>	<b>(443,643)</b>	<b>(32,553,904)</b>	<b>184,233</b>	<b>19,466,390</b>
					3,073,008
					1,382,857
					21,691,482
	3,239	(489,632)			(489,632)
			(15,765,962)	(62,694)	(820,892)
(203,487)					(15,828,656)
<b>20,498,755</b>	<b>5,178</b>	<b>(933,275)</b>	<b>(48,319,865)</b>	<b>121,539</b>	<b>28,271,070</b>

## *Notes to Consolidated Financial Statements*

### >> NOTE 1: ORGANIZATION AND BUSINESS

Intercell AG (the “Company”) was founded on December 3, 1997 as a limited liability company (GmbH). On September 28, 2000, the Company was converted into a stock corporation (Aktiengesellschaft) under Austrian law. The Company (hereinafter together with its subsidiary referred to as the “Group”) is headquartered in Vienna. At December 31, 2003 the Group comprises Intercell AG and its fully owned subsidiary Intercell Biomedical Research & Development Inc., Boston, U.S.

The Company and its subsidiaries are managed by a single management team that reports to the Management Board of the Company. 92 employees were employed in the Group at December 31, 2003 and 95 at the end of the year 2002.

Intercell is developing vaccines for the prevention and treatment of infectious diseases and cancer. In pursuit of this goal, the Company’s research teams have developed two complementary technological pillars. On the one hand, the Company has developed molecular compounds that stimulate the build-up of immune reactions. It has been demonstrated that these substances have the potential not only to induce antibody production but also to stimulate T-cell immunity, which is believed to be key to immunotherapy in widely uncovered disease areas. On the other hand, the Company has developed technologies to identify and validate those structures of bacterial and viral pathogens that are recognized by the human immune system. Once these so-called antigens are identified, identical copies are systematically synthesized or produced by recombinant means to become part of a vaccine, which generates killing specificity against the particular antigen. In addition, the Company’s strategy includes in-licensing of products and technologies complementary to its own product pipeline. The Company has two products in advanced clinical stage, a therapeutic vaccine for Hepatitis C and a prophylactic vaccine for Japanese Encephalitis.

The Company is primarily engaged in the development of its own pharmaceutical product pipeline, but also seeks to license its technologies to external partners for restricted disease indications. The related business activities include product research and development activities, regulatory and clinical affairs, establishing production capabilities for clinical trials, as well as administrative and corporate development activities. As of December 31, 2003, the Company had not yet begun to commercially market any products, and thus is in the development stage. Consequently, the Company is exposed to all the risks inherent in establishing a new business.

The Company’s vaccine products require clinical trials and approvals from regulatory agencies as well as acceptance in the marketplace. The Company is conducting clinical trials for its Hepatitis C therapeutic vaccine and its Japanese Encephalitis prophylactic vaccine. Other clinical studies are in preparation.

Clinical trials for all product candidates will be lengthy and expensive and their outcome is uncertain. If current and future clinical trials do not produce safe, effective and commercially viable products, the Company's business will be severely harmed. Although the Company believes its patent rights and pending patent applications are valid, the invalidation or failure of patents could have a material adverse effect on its business. The Company competes with specialized biotechnology companies and major pharmaceutical companies. Many of these have substantially greater resources than the Company.

#### >> NOTE 2: FINANCIAL RESULTS AND LIQUIDITY

The Company has incurred annual operating losses since inception and, as a result, at December 31, 2003 has a deficit of EUR 48.3 million accumulated during the development stage. The Company's operations have been funded principally by shareholders' equity and silent partnership contributions.

Having successfully completed a two-tranche private equity placement in July and November 2003, management of the Company believes that the Company has sufficient resources to meet the liquidity requirements for the next two and a half years. However, ensuring the Company's long-term success will require further capital increases and successful commercialization of proprietary technologies until the Company's own product candidates reach the marketing stage.

#### >> NOTE 3: SUMMARY OF ACCOUNTING POLICIES

##### [A] BASIS OF PREPARATION

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP").

##### [B] PRINCIPLES OF CONSOLIDATION

The consolidated financial statements for the year 2003 include the accounts of the Company and its US subsidiary named in Note 1 to the consolidated financial statements. All significant inter-company transactions and balances have been eliminated.

##### [C] INVESTMENTS IN ASSOCIATED COMPANIES

Investments in associated companies, which are 50% or less owned and where the Company exercises significant influence over operations are accounted for using the equity method of accounting. Under this method, the investment balance, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the investee company as they occur, limited to the extent

of the Company's investment in, advances to and commitments to the investee. These adjustments are reflected in equity in earnings of associated companies in the consolidated income statements.

#### [D] USE OF ESTIMATES

The preparation of the Group's financial statements in accordance with US GAAP requires the management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes to the financial statements. Actual results could differ from those estimates and may affect amounts reported in future periods.

#### [E] REVENUE RECOGNITION AND DEFERRED INCOME

Revenue is realized or realizable and earned when all of the following criteria are met: strong evidence of an arrangement exists, delivery has been effected or services have been rendered, selling price to buyer is fixed or determinable and collectability is reasonably assured.

The Company recognizes revenue from conditional, non-refundable grants received from governmental agencies upon receipt, when all conditions have been met. Grants received in advance in order to cover a fixed amount of research & development expenses expected to be incurred over a certain period of time, are recognized as revenue when expenses have been incurred and funds received.

The Company also receives interest subsidies on research loans, which are paid out in advance. Such payments are recorded as deferred income and recognized as a reduction of interest expense in the period when interest on the underlying loan is due.

The Company's revenue from collaboration and licensing includes both income from the performance of certain research services and license fees. The terms of such collaboration and licensing agreements include upfront payments and payments based upon achievement of certain milestones. For revenue from the performance of research services to be carried out the Company uses the percentage of completion method to determine the appropriate amount of revenue to recognize in a given period. The stage of completion is measured by reference to labour hours incurred to date to estimated labour hours for each contract. The full amount of any foreseen anticipated loss, including any loss related to future work on the contract, is recognized in the period in which the loss is identified. Where amounts received under the terms of a given contract exceed the amounts recognized as revenue using the percentage of completion method detailed above, the excess is recorded as deferred revenue. Licensing revenue is recognized upon fulfillment of the contractual event that triggers the payment. Cost incurred under collaboration and licensing contracts is recognized in the period incurred, regardless of when the related revenue is recognized.

**[F] CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash, demand deposits with banks and time deposits with maturity of three months or less. Time deposits recorded as cash equivalents at December 31, 2003 and 2002 totaled EUR 13 million and EUR 2.0 million, respectively.

**[G] INTANGIBLE ASSETS, PROPERTY AND EQUIPMENT**

Intangible assets, property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on the expected useful lives of the respective assets, which range from 3 to 10 years. Maintenance, repairs and minor renewals are charged to expenses as incurred. The carrying amount of each intangible asset, property and equipment is reviewed annually and adjusted for permanent impairment where considered necessary.

**[H] FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying amounts for cash and cash equivalents, accounts receivable, accrued liabilities and accounts payable approximate their fair value due to the relatively short maturity of the respective instruments. The fair value of available-for-sale securities is based on quoted market rates. Movements in fair value of securities available for sale are excluded from net income and recorded net of tax as a component of shareholders' equity.

Long-term debt consists of loans granted by state institutions or guaranteed by state institutions. The interest rate for such loans may differ from the market rate. As the fair value cannot be reliably estimated, long-term debt is stated at nominal value. Interest rate subsidies received in advance are deferred and reduce interest expense on a pro-rata-temporis basis.

Trade accounts payable include short-term obligations resulting from the purchase of equipment, consumables and services. In the cash flow statements, changes in trade accounts payable are generally reflected as "adjustment to reconcile net loss to net cash used in operating activities". As far as the purchase of non-current assets is concerned, the respective change in trade accounts payable is accounted for under "cash flows from investing activities".

**[I] INCOME TAXES**

The Company accounts for income taxes under the liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. The Company provides a valuation allowance on deferred net tax assets when it is more likely than not that such assets will not be realized. The Company follows the provisions of Statement of Financial Accounting Standard (FAS) No. 109, "Accounting for Income Taxes."

**[J] EXPENSES INCURRED IN CONNECTION WITH EQUITY FINANCING TRANSACTIONS**

Expenses incurred directly for obtaining new capital are reported as a deduction of the proceeds from capital increase net of related taxes.

**[K] STOCK COMPENSATION EXPENSE**

At December 31, 2003, the company has stock-based employee compensation plans in place, which are described more fully in Note 14. The company accounts for those plans under the recognition and measurement principles of the Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations. The market value of the Company's stock is estimated based on the price at which the Company's stock was sold to investors in the most recent share offering, taking into account the preferences attached to the shares issued in those offerings versus the common shares underlying the stock options.

For stock options granted in 2003, no compensation expense was recognized because the market value of the underlying common stock did not exceed the strike price of the stock options on the date of the grant. For stock options granted in 2001 and 2002, compensation cost are adjusted for increases or decreases in the intrinsic value of the options in subsequent periods until these options are exercised, are forfeited, or expire unexercised, as required by Financial Accounting Standards Board Interpretation No. 44, "Accounting for Certain Transactions involving Stock Compensation"; as per December 31, 2003, this did not result in stock based employee compensation cost to be recognized in net income.

The following table illustrates the effect on net income if the company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation (SFAS 123), to stock-based employee compensation:

Year ended December 31,	2003	2002	2001
Net loss, as reported	(15,765,962)	(12,252,673)	(7,764,889)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(1,228,617)	(695,817)	(56,195)
Pro forma net loss	(16,994,579)	(12,948,490)	(7,821,084)

Pro forma compensation expense for stock options has been calculated using a Monte Carlo option evaluation model described in more detail in Note 14.

#### [L] RESEARCH AND DEVELOPMENT EXPENSES

Research and development expense consists primarily of compensation and other expenses related to research and development personnel; costs associated with pre-clinical testing and clinical trials of the Group's product candidates, including the costs of manufacturing the product candidates; expenses for research and services rendered by third parties; and facility expenses. All research and development costs are charged to expense when incurred.

Payments made to acquire research and development assets, including those payments made under licensing agreements, are expensed as research and development cost unless they are deemed to have an alternative future use or are related to proven products.

#### [M] FOREIGN CURRENCY TRANSLATION OF FOREIGN ENTITIES

The functional currency of the Group's operations is the euro (EUR). Assets and liabilities of subsidiaries reporting in currencies other than EUR are translated to EUR using the year-end rates of exchange, and income and expenses are translated at the average rates of exchange for the year. The difference that results from translating all assets and liabilities at year-end rates, while income and expenses is translated at average exchange rates and other shareholders' equity is translated at historical rates is recorded as a foreign currency translation adjustment in other comprehensive income.

#### [N] COMPREHENSIVE INCOME (LOSS)

Under Statements of Financial Accounting Standards (FAS) No. 130, the Company is required to display comprehensive income and its components as part of its financial statements. Other comprehensive income includes foreign currency translation adjustments of foreign entities and unrealized holding gains and losses on available for sale securities.

#### >> NOTE 4: PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	At December 31, 2003	At December 31, 2002
Prepaid expenses	57,149	35,820
Tax receivables	299,001	927,108
Other	282,354	226,554
<b>Total</b>	<b>638,504</b>	<b>1,189,482</b>

>> NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	At December 31, 2003	At December 31, 2002
Leasehold improvements	1,162,765	1,162,765
Furniture, fittings and other	664,112	537,156
Laboratory equipment	2,837,227	2,667,329
Software	69,945	69,945
Less accumulated depreciation	(2,060,808)	(1,485,084)
<b>Net property and equipment</b>	<b>2,673,241</b>	<b>2,952,111</b>

Software has been acquired for internal use. Depreciation expenses in the fiscal years 2003 and 2002 amount to EUR 615,159 and EUR 563,213, respectively.

>> NOTE 6: AVAILABLE-FOR-SALE SECURITIES

Short-term available-for-sale securities comprise corporate debt securities and shares of a money market mutual fund. Securities available for sale are recorded at fair value with movements in fair value included in shareholders' equity.

The fair value of available-for-sale securities is as follows:

	At December 31, 2003	At December 31, 2002
Debt securities with contractual maturities of less than 1 year	5,095,048	8,456,469
Mutual funds	5,850,249	12,285,922
<b>Total</b>	<b>10,945,297</b>	<b>20,742,391</b>

Total amortized cost, unrealized holding gains and unrealized holding losses at December 31, 2003 and 2002 are as follows:

	At December 31, 2003	At December 31, 2002
Amortized cost	10,848,098	20,569,728
Unrealized holding gains	97,199	305,853
Unrealized holding losses	0	(133,190)
<b>Fair value</b>	<b>10,945,297</b>	<b>20,742,391</b>

Net unrealized losses associated with securities available for sale amounting to EUR 75,464 are included in accumulated other comprehensive income in the fiscal year ended December 31, 2003.

In 2002 unrealized net gains amounted to EUR 270,322. Realized gains from the sale of available-for-sale securities amount to EUR 463,480 and EUR 15,067 in the fiscal years 2003 and 2002, respectively, and have been determined using the specific identification method. Proceeds of EUR 48,258,028 from the sale and maturity of available-for-sale securities in the year 2003 are due to the short maturity structure of the portfolio and were largely reinvested.

>> NOTE 7: OTHER NON-CURRENT ASSETS, RESTRICTED

Other non-current assets, restricted, are interest rate subsidies paid in advance by governmental entities in a segregated bank account from which regular payments are made in order to reduce actual interest expense. Other non-current assets, restricted, amount to EUR 3,088 and to EUR 60,692 at December 31, 2003 and 2002, respectively.

>> NOTE 8: ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	At December 31, 2003	At December 31, 2002
Accrued vacation	244,975	281,292
Tax liabilities	320,256	270,273
Contractual preferred dividend (silent partnership)	203,487	0
Other	1,287,559	672,247
<b>Total</b>	<b>2,056,277</b>	<b>1,223,812</b>

Other accruals and current liabilities mainly comprise accrued personnel expenses, accrued expenses for R&D services and R&D materials and accrued financing costs.

>> NOTE 9: LONG-TERM DEBT

Long-term debt comprises the following:

At December 31, 2003	At December 31, 2002	
Loans due to commercial banks guaranteed by Austrian Industrial Research Promotion Fund	2,841,644	3,578,000
Loans due to a commercial bank guaranteed by Austrian Financing Guarantee Organization	3,488,296	3,488,296
Loan due to Austrian Innovation Agency	1,057,871	973,376
	<b>7,387,811</b>	<b>8,039,672</b>
Less current portion included in current liabilities	(1,651,715)	(654,055)
<b>Total</b>	<b>5,736,096</b>	<b>7,385,617</b>

The loan agreement with the Austrian Innovation Agency, an Austrian government organization, was entered into in November 1998. In 1998 and 1999, EUR 726,728 were drawn under this agreement. The loan agreement provides that interest payments as well as repayment of the principal are deferred and capitalized as long as the Company reports an annual loss. If the Company reports an annual profit, interest and principal repayments in any given year are limited to a maximum of 35 % of the Company's annual profit for that year. Interest capitalized amounts to EUR 331,143 and EUR 246,648 at December 31, 2003 and 2002, respectively.

Maturities of long-term debt for the next five years are as follows: 2004: EUR 1,651,715, 2005: EUR 1,685,248, 2006: EUR 1,297,659, 2007: EUR 997,659, 2008: EUR 697,659. No assets owned by the Company have been pledged as collateral.

>> NOTE 10: LEAVING INDEMNITIES AND TERMINATION BENEFITS

Under Austrian labor law, leaving indemnities were payable to employees on termination of employment under certain circumstances, including retirement. For all employees joining after December 31, 2002 this legal requirement, for which the Company used to account for as a defined benefit scheme under Statement of Financial Accounting Standards (FAS) No. 87 "Employers' Accounting for Pensions", is no longer applicable. Instead, the employer is required to make contributions to a multiemployer defined contribution plan ("Mitarbeitervorsorgekasse"). Monthly contributions to this plan are recognized in the period incurred. All other employees, first employed before January 1, 2003, opted into the new scheme. Net periodic benefit cost incurred during the year before settlement of the entire obligation, amounted to EUR 27,567. Gains from settlement recognized in earnings amounted to EUR 95,631. Monthly con-

tributions to the new scheme amount to 1,53 % of the salary of each respective employee. In the year ending December 31, 2003 contribution cost of EUR 47,475 was recognized.

In 2003, the members of the management board have been granted special contractual termination benefits. Following Financial Accounting Standards (SFAS) No. 88 "Termination Benefits", no liability has been recognized with respect to these contractual termination benefits at December 31, 2003, as the management of the Company does not consider it probable that a termination benefit would need to be paid. Contingent liabilities under these contractual arrangements amount to EUR 1,195,000.

#### >> NOTE 11: INCOME TAXES

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the Austrian statutory tax rate (34%) as follows:

Year ended December 31,	2003	2002	2001	Inception to Dec. 31, 2003
Result/(loss) from operations	(15,807,502)	(12,358,868)	(7,688,892)	(48,391,872)
Income tax benefit computed at statutory rate (34%)	5,374,398	4,202,015	2,614,223	16,453,084
Differences arising from differing foreign tax rates	(189)	184	3,036	5,056
Permanent difference resulting from investment allowances and other permanent differences	(21,831)	(24,815)	0	(41,607)
Research and education allowance	1,115,673	636,904	556,002	3,331,244
Tax benefit foregone due to loss attribution to silent partners (see note 14b)	(1,365,576)	(2,666,397)	(3,198,336)	(13,244,360)
Effect of cost of equity transactions capitalised	279,103	19,011	674,063	2,210,239
Valuation allowance on deferred tax assets	(5,355,920)	(2,075,895)	(663,846)	(9,254,302)
Other items not subject to tax	(25,658)	(7,284)	(74,763)	508,440
Tax credit from prior years	45,465	0	0	45,465
<b>Income tax (expense)/benefit</b>	<b>45,465</b>	<b>83,723</b>	<b>(89,621)</b>	<b>13,259</b>

Deferred tax assets consist of the following:

<u>At December 31,</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Deferred tax asset on tax loss carry forwards	9,267,436	3,810,394	1,493,781
Deductible temporary differences resulting in deferred tax assets	93,184	1,356	1,327
Minimum income tax deductible in future periods	0	27,263	99,573
Unrealized holding losses on available-for-sale securities	33,048	0	33,173
Employee termination indemnities and other personell provisions	56,281	0	18,016
Other items	0	0	15,895
Less valuation allowance	(9,254,302)	(3,734,770)	(1,658,875)
<b>Total deferred tax asset</b>	<b>195,647</b>	<b>104,243</b>	<b>2,890</b>
Accounts receivable	(170,000)		
Other deductible temporary differences resulting in deferred tax liabilities	(25,647)	(58,705)	(2,890)
Employee termination indemnities	0	(45,538)	0
<b>Total deferred tax liability</b>	<b>(195,647)</b>	<b>(104,243)</b>	<b>(2,890)</b>
<b>Deferred tax asset, net</b>	<b>0</b>	<b>0</b>	<b>0</b>

At December 31, 2003 and 2002, the Group had net operating tax losses of EUR 27,460,652 and EUR 11,207,041 respectively, which will be available to offset against future taxable income for an unlimited period of time. However, as the Group is not expected to operate profitably in the foreseeable future, the net deferred tax assets have been reduced by a 100% valuation allowance.

Government has announced to reduce income tax rate from 34% to 25% for fiscal years 2005 onwards.

#### >> NOTE 12: PERSONNEL COSTS

Personnel costs have been allocated to research and development costs and to sales, general and administrative costs by cost center and amount to EUR 6,402,283 and EUR 5,155,763 for the years ended 2003 and 2002, respectively.

#### >> NOTE 13: LEASES

The Company rents 2,600 square meters of laboratory and office space at Campus Vienna Biocenter 6 and 1,150 square meters of office space at Campus Vienna Biocenter 2.

The annual rent for the Campus Vienna Biocenter 6 facilities amounts to approximately EUR 580,000 (net

of EUR 100,000 public subsidies, directly paid to the lessor). Rent is subject to an annual escalation based on the Austrian consumer price index. The Company is entitled to terminate the agreement at the end of each calendar year at one year's notice. The earliest date at which the agreement would no longer be in effect as a result of such termination is January 1, 2008. The annual rent for the Campus Vienna Biocenter 2 facilities is approximately EUR 213,000, subject to annual escalation based on the Austrian consumer price index. The lease contract can be terminated on December 31, 2007 at the earliest with six months prior notice. After that date the contract can be terminated effective at the end of each calendar year with six months prior notice. Bank guarantees amounting to EUR 11,991 and EUR 76,697, for which the Company shall be liable, have been issued to the lessor of Campus Vienna Biocenter 6 and Campus Vienna Biocenter 2, respectively.

In addition, the Company leases office space, apartments, parking spaces and – on a limited scale – cars and equipment. All leases are operating leases. None of them provides for contingent rentals nor do any of them contain restrictions on the Company's activities concerning dividends, additional debt or further leasing. The total amount of leasing expenses for the years ended December 31, 2003 and 2002 amount to the following:

Operating lease expense

Year ended December 31,	2003	2002
Property leasing	678,129	638,876
Equipment and car leasing	46,534	42,366
<b>Total</b>	<b>724,663</b>	<b>681,242</b>

Scheduled minimum lease payments under operating lease agreements, which have non-cancelable lease terms in excess of one year at December 31, 2003, amount to EUR 3,560,364 in total. Scheduled minimum lease payments under non-cancelable leases, for the next five years are as follows:

Year ended December 31,	2004	2005	2006	2007	2008
Property leasing	918,901	884,445	876,727	691,327	0
Equipment and car leasing	50,040	48,048	48,048	42,828	0
<b>Total</b>	<b>968,941</b>	<b>932,493</b>	<b>924,775</b>	<b>734,155</b>	<b>0</b>

Beyond the year 2007 there are no contractual minimum lease obligations, which could not be cancelled. The management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases.

## &gt;&gt; NOTE 14: SHAREHOLDERS' EQUITY

## [A] REGISTERED CAPITAL

The following table summarizes the number and classes of shares that have been issued by the Company:

At December 31,	2003	2002
Class A shares	14,585	16,136
Class B shares	63,977	49,102
Class C shares	117,569	0
Preferred common shares	24,295	13,936
Common shares	18,985	42,668
<b>Total number of shares issued</b>	<b>239,411</b>	<b>121,842</b>
Less: Treasury stock (repurchased own shares)	(5,178)	(1,939)
<b>Total number of shares outstanding</b>	<b>234,233</b>	<b>119,903</b>

The shares issued have no par value. Each share of the Company irrespective of its class has one equal vote and equal dividend rights. The transfer of shares is restricted and subject to prior approval by the supervisory board. The owners of preferred common shares, class A shares, class B shares and class C shares have preferential rights in case of the distribution of proceeds upon liquidation. The liquidation preference amounts to EUR 481,00 per class C share. For class B shares, class A shares, and preferred common shares the liquidation preference is defined as the original amount paid in for each respective share. In the event of an initial public offering, all shares will automatically be converted into common shares. In addition, each shareholder of preferred common shares, class A shares, class B shares or class C shares has the right to request the conversion of his or her shares into common shares at any time.

The following capital increases and stock issues have been carried out since the initial capitalization of the Company on December 3, 1997:

In August 1998 the Company's registered capital was increased by EUR 13,445 in a first (series A) private placement transaction. In consideration of this participation additional capital amounting to EUR 713,284 was paid in instantly. EUR 1,711,445 of additional capital relating to this capital increase were paid in March 1999 and EUR 468,740 in July 1999. In January 1999 the series A financing was extended by another capital increase of EUR 2,108 and additional capital paid in of EUR 676,148.

On September 28, 2000, the Company was converted into a stock corporation under Austrian law. Previously existing registered capital was transformed into 51,894 shares with no par value (35,758 common shares and 16,136 preferred class A shares). At the same time, 6,910 common shares were issued at EUR 228.80 per share and 13,936 preferred common shares were issued for EUR 1.00 per share. The new common shares were subscribed to by employees and certain advisors of the Company

through a trustee under the equity incentive plan described below (see Note 14c). The preferred common shares were issued to a trustee and designated for conversion of the silent partnership investment into shares (see below Note 14 b).

In November 2000, the Company completed a follow-up private placement by issuing 49,102 preferred class B shares at EUR 550 per share resulting in proceeds of EUR 27 million (before deducting expenses payable by the Company). An amount of EUR 13,500,103 was paid in immediately, EUR 13,475,084 was paid in during the fiscal year 2001 and EUR 25,020 was paid in in January 2002.

In 2003 the Company completed a private placement of 117,569 preferred class C shares, of which 81,082 were issued in July 2003 and 36,487 were issued in November 2003 in a second tranche. The consideration of EUR 370 per share will result in proceeds of EUR 43.5 million for the Company (before deducting expenses payable by the Company). Thereof, an amount of EUR 26,147,346 was paid in by December 2003 and EUR 17,353,184 will become due for payment at June 30, 2004.

In July 2003, a total of 10,359 shares (4,091 common shares, 1,551 preferred class A shares and 4,717 preferred class B shares) were converted into preferred common shares. In November 2003, 19,592 common shares were converted into class B shares.

#### [B] SILENT PARTNERSHIP

Before having been merged into the Company, the Company's subsidiary CISTEM Biotechnologies GmbH ("CISTEM") conducted a major part of the Group's operational business. CISTEM entered into a silent partnership agreement in 1999 (arrangement A) and in 2000 (arrangement B). As a result of the merger, the Company, as CISTEM's legal successor, has assumed all rights and obligations of CISTEM under the silent partnership agreements.

Under the provisions of the Austrian Commercial Code, a silent partnership is an unincorporated legal form in which a natural or legal person, the silent partner, makes a contribution to the commercial enterprise without taking part in the management or representation of this enterprise and without being personally liable for the debts incurred by the enterprise. The silent partnership has no legal personality of its own.

## &gt;&gt; CONVERSION OPTION

According to the Shareholders' Agreement among the Company and its shareholders (the "Shareholders' Agreement"), the Silent Partners shall be offered the opportunity to convert their silent partnership interest into shares in the Company. For this purpose, 13,936 preferred common shares have been issued to a trustee in the year 2000 and another 10,359 shares have been transferred to the trustee by the shareholders in the year 2002, which together shall serve as consideration to the silent partners upon conversion.

Whereas the Shareholders' Agreement does not stipulate a date as to when the conversion offer has to be made at the latest, it is understood between the parties that the conversion offer will be made before an initial public offering of any shares of the Company. The prospectuses issued in connection with the offering of the silent partnership interests to the Silent Partners state that the Silent Partners will be entitled to convert their silent partnership interest into shares in the Company, if the Company goes public.

## &gt;&gt; LOSS ATTRIBUTION TO SILENT PARTNERS

The Silent Partners' participation of 19.94 % in the Company's profit or loss is based on the proportion of the value of the Silent Partners' participations in CISTEM as of September 30, 2002 and the merged Company's total value at this point in time. Following the payment of the last tranche of the purchase price for the class C shares, expected to be made by June 30, 2004, the Silent Partners' participation in the Company's profit or loss will be reduced to approximately 10 %. If the Silent Partners' initial contribution is decreased by losses allocated to them, subsequent profits will only be distributable upon exceeding the initial contribution. The Silent Partners are not obliged to make any further contributions.

In allocating any profits to the Silent Partners, a bonus is anticipated in favor of the Company in order to compensate the Company for conducting the business and representing the partnership. This bonus amounts to 2% (2.5% in case of arrangement B) of the Company's revenues or a minimum of EUR 36,336 (EUR 363,364 in case of arrangement B) and is deducted from the Company's profit in advance; only the remaining profit is subject to allocation between the Company and the Silent Partners. If the profit for a year does not cover this remuneration, the shortfall will be carried forward to the following year(s).

For Austrian income tax purposes, losses are attributed to Silent Partners (which losses such Partners may use to achieve certain income tax benefits), thus reducing tax loss carryforwards available to the Company in order to compensate future taxable income (see note 11).

## &gt;&gt; DRAWING OF SILENT PARTNERSHIP CONTRIBUTIONS

From the fifth year of participation onwards, Silent Partners are entitled to withdraw 4% of their current contribution account per year. In the year 2003 EUR 203,487 were drawn under this provision and accounted for as a withdrawal from the silent partnership contributions.

## &gt;&gt; TERMINATION OF SILENT PARTNERSHIP

The silent partnership agreements may be terminated as of January 31 of each year by either the Company or the Silent Partners at six months' prior notice. Upon termination of the silent partnership agreement, the relevant Silent Partners are entitled to a cash settlement equivalent to their interest in the fair value of the Company at the time of termination (minus drawings). The silent partnership may not be terminated during the first ten years after having been entered into.

**[C] EQUITY INCENTIVE PLAN**

In September 2000, the Company implemented an equity incentive plan for management, employees, scientific advisors and supervisory board members. Under this plan, 6,910 shares have been issued (see above Note 14 a) and offered to the beneficiaries at a price of EUR 228.80 per share. The management considers the price of EUR 228.80 as the fair value of the shares at the time of the offering. As no quoted market price exists for the Company's shares, no compensation expense was recognized. The purchase price has been fully paid in by the beneficiaries who took advantage of the offer.

As long as the Company's shares are not listed on a stock exchange, each beneficiary has the right to sell his or her shares back to the Company at the issuance price of EUR 228.80. Given the current share price of the Company's shares (as determined by the last financing round) the management considers the probability of future expenses resulting from this obligation to be remote. Shares vest gradually to the extent of 1/16 every quarter of a year from the start of the individual working or consulting relationship. After four years of employment shares become fully vested. The Company has the right to repurchase unvested shares at the issuance price of EUR 228.80 in case of termination of the respective individual employment.

The following table sets forth the numbers of vested and unvested shares held by employees under the equity incentive plan:

<u>At December 31,</u>	<u>2003</u>	<u>2002</u>
Vested	2,816	4,724
Unvested	15	247
<b>Total</b>	<b>2,831</b>	<b>4,971</b>

The aggregate number of shares, which have been repurchased by the Company through December 31, 2003 and 2002, amounts to 4,079 and 1,939, respectively.

#### [D] STOCK OPTIONS

The Company implemented a stock option plan for management and employees in December 2001. As a result, the shareholders resolved at the Annual General Meeting in May 2002 to conditionally increase the nominal share capital by 12,184 shares and authorized management to use the shares repurchased under the equity incentive plan (see above Note 14 c) to satisfy the exercise of stock options. The strike price was fixed at EUR 550 per share for the options issued in 2001 and at EUR 500 per share for the options issued in 2002. Subsequently, the strike price for all stock options issued in the years 2001 and 2002 was changed to EUR 185 per share (“re-pricing”), based on a resolution of the Annual General Shareholders’ Meeting in July 2003.

At the Annual General Meetings in July 2003 and in November 2003 another conditional increase in the nominal share capital of 3,781 and 3,648 shares, respectively, for the issuance of stock options was adopted. For the options issued in the year 2003 the strike price was fixed at EUR 185.

All options bear the right to purchase upon vesting a certain amount of shares at the strike price fixed at the time of issuance of the options. In general, options vest in four equal portions after the second, third, fourth and fifth year after being granted. Special option packages offered to members of the management board and to key employees upon hiring or as a special incentive vest after three years. All options expire no later than five years after their granting. Options are not transferable or negotiable and unvested options shall lapse without compensation upon termination of the employment with the Company (cancellation).

The following table summarizes the stock options outstanding at 31 December 2003, 2002 and 2001:

	2003	2002	2001
Options outstanding at beginning of year	11,791	8,337	0
Number of options issued	11,400	3,627	8,337
Number of options cancelled	300	173	0
<b>Options outstanding at year-end</b>	<b>22,891</b>	<b>11,791</b>	<b>8,337</b>
Weighted average remaining vesting period (years)	1,88	2,06	2,63
Weighted average remaining life (years)	3,25	3,81	4,50
Weighted average exercise price (EUR)	185	535	550
Number of options exercisable at year-end	0	0	0

No options were exercised or expired in the fiscal year 2003 and no options were exercisable at year-end.

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its employee stock options. The options granted in the years 2001 and 2002, for which the fixed exercise price was subsequently reduced (re-pricing) are accounted for as a variable plan and the stock options issued in the year 2003 are accounted for as a fixed plan (see note 3 (k)). Based on the management's estimate on the market value of the common shares underlying the stock options, no compensation expense for stock options is recognized in the year 2003.

Pro forma information illustrating the effect on net income and earnings per share if the company had applied the fair value recognition provisions of Financial Accounting Standards Board (FASB) No. 123, Accounting for Stock-Based Compensation (SFAS 123), to stock-based employee compensation, is disclosed in Note 3 (k). The fair value of the options was estimated at the date of the grant or at the date of re-pricing using the Monte Carlo model with the following assumption ranges: risk free interest rates between 2.2 % and 3.4 %, dividend yield of 0 %, volatility factor between 49.1 and 76.5 % and an expected vesting period of the options between 1 and 5 years. The Monte Carlo option valuation model has been developed estimating the fair value of more complex exotic options. In the underlying case a barrier option was modelled. Barrier options are path dependent. Their payoff and, therefore, value depends on the path taken by the asset up to expiry. In the case of the Company an "In" Barrier option was modelled. An "In" Option only has a payoff, if the barrier is triggered. The Company has taken two different barriers into account. First, the barrier resulting from the liquidation preferences of class A, B, C and preferred shares, second, the barrier of a possible IPO leading to the transformation of class A, B and C shares and preferred common shares to common shares. To speed up the convergence, an antithetic variable technique was implemented in the Monte Carlo model. The Monte Carlo model, just as other option valuation methods, requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have

characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, in the management's opinion the existing model does not necessarily provide a reliable single measure of the fair value of its employee stock options. Using the Monte Carlo option valuation model, the weighted average value of the options granted during the year ended December 31, 2003 was EUR 110,21 per option.

#### >> NOTE 15: TREASURY STOCK

The Company has from time to time repurchased its own shares in the context of its equity incentive plan (see Note 14 c), which was put in place in the year 2000. In addition, in the year 2003 a shareholder of the Company has transferred a number of shares to the Company for no consideration, as a result of a share transfer and settlement agreement among the shareholders of the Company. The following table summarizes the transactions in own shares and the number of own shares held by the Company:

	2003	2002	2001	2000
Number of own shares at beginning of year	1,939	1,816	1,383	0
Number of own shares repurchased	3,239	123	433	1,383
<b>Number of own shares at year-end</b>	<b>5,178</b>	<b>1,939</b>	<b>1,816</b>	<b>1,383</b>

These shares are recorded at cost, totaling EUR 933,275 and EUR 443,643 at the end of 2003 and 2002, respectively. The Annual General Meeting in May 2003 authorized the management to dispense own shares held as treasury stock to its employees and members of the management board and supervisory board under the terms and conditions of the stock option plan 2001 (see Note 14 d).

#### >> NOTE 16: COLLABORATION AND LICENSE AGREEMENTS

In June 1998, the Company entered into an agreement with Boehringer Ingelheim International GmbH ("BI"). Through the agreement with BI, the Company has obtained the right to use the TransVax technology in the research and development of products of laboratory, pharmaceutical and diagnostic use. In April 2003 the parties signed a license agreement, giving the Company commercialization rights for products based on the TransVax technology for a broad range of disease areas. In return, the Company grants royalties on future net product sales to BI.

In April 2003, the Company entered into a set of agreements with VaccGen International, LLC ("VaccGen") for acquiring a vaccine project targeting Japanese Encephalitis virus infections. Under the terms of these agreements, which form a single commercial transaction, the Company has obtained an

exclusive license and certain documents and materials, which as a whole will allow it to further develop the product and to market it after successful completion of the development process and after regulatory approval. VaccGen will in turn receive milestone payments, and royalty payments on product sales. In the year 2003 upfront payments of approximately EUR 1,240,000 were made to VaccGen under these agreements and were accounted for as research and development expenses.

In September 2003 the Company has obtained a worldwide exclusive license from the National Institutes of Health ("NIH") and the Centers for Disease Control and Prevention ("CDC") within the US Department of Health and Human Services for certain intellectual property rights relevant for the Company's therapeutic vaccine to treat hepatitis C. In 2003 approximately EUR 77,000 were paid to NIH under this agreement and the Company is subject to further license and milestone payments. In addition, royalties on net sales will be payable by the Company upon commercialization.

Expected funding commitments (not including royalties on product sales) resulting from agreements, under which the Company obtains licenses for its products and technologies, are as follows: 2004: EUR 7,000; 2005: EUR 2,650,000; 2006: EUR 1,507,000, and 2007: 3,207,000.

In September 2001 the Company entered into a research collaboration and license agreement with Merck & Co., Inc. Under the terms of the agreement both parties perform experiments to develop new vaccines and immunotherapeutics based on antigens discovered by the Company. Merck covers the costs of this program and made certain payments to the Company, which were recorded as revenues from collaboration and licensing. In return, the Company granted Merck a temporary first and exclusive option to license and commercialize the inventions arising from the program upon reasonable commercial terms subject to further negotiations.

In December 2003 the Company entered into a collaboration and licensing agreement with Aventis S.A. under which it will identify relevant antigens for the use in a bacterial vaccine. Upon successful completion of the research services performed in the initial term of this agreement, Aventis has an option to acquire a worldwide exclusive license from the Company regarding the intellectual property rights in the specific field of this collaboration. In return the Company will receive upfront payments, research and development funding, license fees, milestone payments, and royalty payments on product sales.

In addition, the Company has entered into a number of material transfer agreements with pharmaceutical and biotech companies, by which it makes its proprietary Immunizer technology available for evaluation for the development of novel vaccines, without granting any commercial rights.

**>> NOTE 17: RELATED PARTY TRANSACTIONS**

In 2001, the Company granted interest free loans totaling EUR 741,000 to the chief executive officer, the chief scientific officer and a founding shareholder. The term of the loans is five years except for an earlier termination of the working relationship with the Company. In this event the outstanding amount falls due immediately for the two members of the management board of the Company. The founding shareholder, who is no longer an employee of the Company, is entitled to keep the loan for the full initial five-year period.

A shareholder of the Company who served as vice-chairman of the Supervisory Board received annual consulting fees for scientific advisory services of approximately EUR 65,000 and EUR 55,000 in the years 2003 and 2002, respectively. Another member of the Supervisory Board received consulting fees of approximately EUR 23,000 in the year 2003. The Company paid advisory fees for tax consulting of approximately EUR 49,000 and 146,000 in the years 2003 and 2002, respectively, to an accounting firm, a managing partner of which served on the Supervisory Board of the Company.

The following transactions were executed with parties representing silent partners of the Company (see Note 14b) or companies associated with such parties: In April 1999 the Company entered into an agency agreement with Commercial Gesellschaft für Vermögensanlagen GmbH ("Commercial") for arranging a financing of EUR 5.1 million through silent partnership investments and paid placement fees of approximately EUR 890,000. AT Treuhandbeteiligungs GmbH ("AT") acts as trustee for the silent partners and received an annual trustee fee of approximately EUR 25,000 from the Company in the years 1999 to 2003. In May 2000 a second agency agreement was entered into with Commercial for arranging another silent partnership investment of up to EUR 21.9 million in the years 2000 to 2002. Placement fees of approximately EUR 3,815,000 were deducted from the investment proceeds under this agreement in the year 2000 and accounted for as liability as far as they were not paid in the year 2000. 55 % of the placement fee was paid in the year 2000, and 15 % and 30 % in the years 2001 and 2002, respectively. Annual interest of 4 % was paid on the remainder. ATI Vermögenstreuhand GmbH ("ATI") acts as trustee for the silent partners and received an annual trustee fee of approximately EUR 109,000 from the Company in the years 2000 to 2003. Since September 2000 an executive director of Commercial, AT, ATI or their common holding company Kapital & Wert Vermögensverwaltung AG serves as a member of the Supervisory Board of the Company.

In the year 2003 the Company has provided services to Biovertis Information Driven Drug Design AG (see Note 1), in which it holds a 25 % shareholders' stake and in which a member of the management board of the Company serves as chairman of the supervisory board. Resulting revenues of EUR 108,036 were accounted for as other operating income. At December 31, 2003 amounts due for such services

amount to EUR 8,826. In addition the Company has granted a short-term loan of EUR 20,000 to Biovertis and has assumed liability for a bank guarantee issued for Biovertis in the amount of EUR 60,000. In December 2003 the Company entered into a licensing agreement under which Biovertis receives a license to use the Company's antigen identification technology in the field of small molecule antibacterial drugs. In return the Company will receive royalty payments on sales of products and on sublicensing fees.

#### >> NOTE 18: SUBSEQUENT EVENTS

Subsequent to the balance sheet date the Company entered into a commercial license agreement with the Statens Serum Institut (SSI), under which it grants certain rights to its IC 31 Immunizer technology for the use in a novel Tuberculosis vaccine. In return, the Company will receive an upfront and milestone payment and a substantial share in the profits on the future product commercialization.

In February 2004 the Company acquired a business, consisting of a multi-purpose biologics manufacturing plant in Livingston, Scotland, and a staff of 24 specialized employees for approximately EUR 3.5 million. The 30,000 square foot facility was formerly owned by Excell Biotech, Ltd. and is designed according to up-to-date international standards for biologics product manufacturing. It will allow the Company to fully control the clinical and future commercial manufacturing of its prophylactic Japanese Encephalitis vaccine and future recombinant bacterial vaccines.

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**PRINTED BY:** Angerer & Göschl

## Facts

**CORPORATE MISSION** » Intercell is a biotechnology company that focuses on the research and development of novel vaccines against infectious diseases and cancer. Intercell employs latest stage immunology and vaccine technologies to produce novel vaccines restricted to their essential components. The natural human immune response is taken as a model for the most effective vaccine composition.

Intercell has a strong and promising product pipeline. The most advanced products are a therapeutic Hepatitis C vaccine, which entered Phase II clinical testing in autumn 2003 and a prophylactic vaccine against Japanese Encephalitis which has successfully undergone a Phase II clinical study. Phase III clinical studies are planned for 2005.

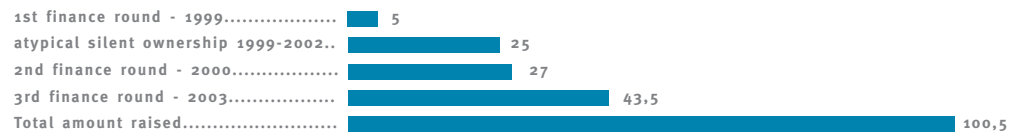
Intercell has also developed two technological programs — the Antigen Identification Program and the adjuvant program (the “Immunizers”) — which support its product development and are generating a growing product and patent portfolio.

Intercell is a venture capital financed company, and has succeeded in raising more than € 100 million since becoming operational in 1998.

**PROPRIETARY TECHNOLOGIES** » Intercell’s work is based on two technological programs – the Antigen Identification Program (AIP) and the adjuvant program (Immunizers.) Intercell has created a program for identifying most, if not all, vaccine suitable antigens for a whole range of pathogens. In pursuit of this goal, the AIP uses state-of-the-art molecular and serological methods to identify those structures of the pathogens, which are recognized by the human immune system. These antigens form an integral part of Intercell’s “smart vaccines”. However, vaccines, based on antigens alone are not sufficient to provide protection against a given pathogen. Intercell’s proprietary adjuvants, also termed “Immunizers,” are needed to activate the immune system to recognize and kill pathogens efficiently. The Immunizers have the unusual but highly beneficial property of not only inducing antibody production but also stimulating T-cell immunity. T-cells recognize and eliminate diseased cells which have been invaded by viruses or other pathogens.

# Facts

## FINANCE HISTORY »



**OWNERSHIP STRUCTURE »** Intercell's investors are among the leaders in the venture capital industry. Intercell has attracted investment from: Apax Partners & Co, Nomura, TVM, Global Life Science Ventures, Star Ventures, NIB Capital, Sal. Openheim, Go Equity and MPM Capital.

## HIGHLIGHTS OF 2003

- » Rapid progress with clinical development: two Phase II products in the pipeline;
- » Pharma alliances with Aventis Pasteur and the Statens Serum Institute based on antigens and Immunizers
- » EUR 43.5 million Round C private venture financing

## ANTICIPATED HIGHLIGHTS

- » Drive Phase II products into Phase III
- » Further partnerships to support development of proprietary products
- » Prepare the company for an IPO
- » Further action to strengthen the pipeline of infectious disease vaccines

## How to reach us



1. Intercell Company Building
2. Ringstrasse
3. Hotel Sacher
4. St. Stephen's Cathedral
5. Fiacres
6. Figlmüller
7. Graben
8. Vienna University
9. Nussdorf and Grinzing

*10 Must-see Spots for Bio-Freaks:*

**1. INTERCELL COMPANY BUILDING**

How to reach us: Intercell AG  
Campus Vienna Biocenter2  
A-1030 Vienna, Austria  
PHONE +43-1-20620-100  
FAX +43-1-20620-800

Arrive at Vienna International Airport  
- Taxi to Intercell (approx. EUR 30)  
- The CAT airport train runs every 20 minutes.  
The journey to Wien Mitte (Vienna Central) Station takes 15 minutes. Intercell is eight minutes from the Station by taxi or public transport (74 A bus or U 3 subway to Schlachthausgasse.)

If you have some spare time, why not look around our city? The center is nearby. Here are some attractions:

**2. RINGSTRASSE**

Kaiser Franz Joseph pulled the city walls down and built this famous boulevard around the inner city. A walk along the Ringstrasse takes you to the Stadpark, the State Opera, the Kunsthistorisches Museum (Museum of Fine Arts,) the Naturhistorisches Museum (Natural History Museum,) the Parliament, the Burgtheater and City Hall.

**3. HOTEL SACHER**

One of Vienna's finest hotels, renowned for its cuisine. The Red Bar and Blue Bar both pose a threat to your immune system. The hotel is home to world's most famous cake, the original Sacher Torte.

**4. ST. STEPHEN'S CATHEDRAL**

The city's Gothic cathedral, famed for its spire and the Pummerin bell — Austria's largest.

**5. FIACRES**

A horse-drawn carriage is the ideal way to see central Vienna.

**6. FIGLMÜLLER**

One of the best places to try your first authentic Viennese schnitzel.

**7. GRABEN**

Need a souvenir? The Graben and nearby Kärntner Strasse are good places to find a memento for friends and family.

**8. VIENNA UNIVERSITY**

Intercell is always in contact with the leading scientists at Vienna University, which boasts nine Nobel Prize Laureates.

**9. THIS WAY TO NUSSDORF AND GRINZING**

These suburbs are famous for the life science of wine growing, and are especially recommended for autumn walks through the vineyards.





[WWW.INTERCELL.COM](http://WWW.INTERCELL.COM)