

intercell
SMART VACCINES

» get infected ...



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STATUS END 2006

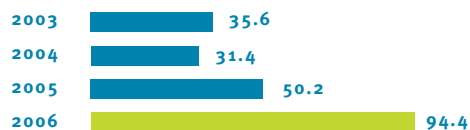
- » Excellent pipeline and technology performance
 - » Novel Japanese Encephalitis vaccine (filing with FDA initiated, launch expected early 2008)
 - » Pseudomonas vaccine in Phase II
 - » S.aureus vaccine in Phase I (partnered)
 - » Innovative Hepatitis C therapeutic vaccine in Phase II
 - » Tuberculosis vaccine in Phase I (partnered)
- » Novel vaccine platforms (Antigen Identification Program, AIP® and Vaccine Improvement Program, VIP-IC31™) continue to deliver strong pipeline
- » Excellent strategic partners (Novartis, Wyeth, sanofi pasteur, Merck&Co., Kirin, SSI)
- » Solid financial position

FINANCIAL HIGHLIGHTS

NET LOSS / PROFIT, IN € M



CASH, IN € M



R&D SPENDING, IN € M



REVENUES, IN € M

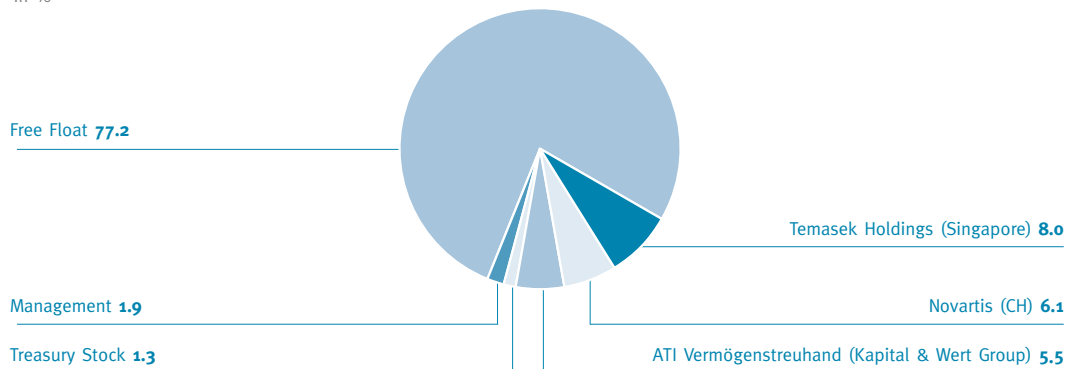


// // Shareholder information

Share price 31 March 2007:	€ 24.50
52 weeks low:	€ 9.30
52 weeks high:	€ 25.70
Shares issued:	39,881,712
Market capitalization:	€ 977 mn
Average daily trading volume (12 months):	162,000 shares
Weighting in the ATX-Index:	1.44 %

SHAREHOLDER STRUCTURE (31 MARCH 2007)

in %



SAFE HARBOUR STATEMENT In this annual report, the Company may make projections or other forward-looking statements regarding, among other things, the progress, timing and completion of our research, development and clinical trials for product candidates, the Company's ability to market, commercialize and achieve market acceptance of its product candidates, its ability to protect its intellectual property and operate its business without infringing on the intellectual property rights of others, the Company's estimates for future performance and its estimates regarding anticipated operating losses, future revenues, capital requirements and its needs for additional financing. Additionally, even if the Company's actual results or development are consistent with the forward-looking statements contained in this annual report, those results or developments may not be indicative of results or developments in the future. In some cases, you can identify these forward-looking statements by words such as "could," "may," "expects," "anticipates," "believes," "intends," "estimates," or similar words. These forward-looking statements are based largely on the Company's current expectations as of the date of this annual report and are subject to a number of known and unknown risks and uncertainties and other factors that may cause its actual results, performance or achievements to be materially different from any future results, performance or achievement expressed or implied by these forward-looking statements. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements made in this annual report will in fact be realized. Except as otherwise required by applicable securities laws, we disclaim any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

// 01 // Mission

- » Intercell AG is a growing biotechnology company which focuses on the design and development of novel vaccines for the prevention and treatment of infectious diseases with substantial unmet medical need. The Company develops antigens and adjuvants which are derived from its proprietary technology platforms, and has in-house GMP manufacturing capability. Based on these technologies, Intercell has strategic partnerships with a number of global pharmaceutical companies, including Novartis, Merck&Co., Wyeth, sanofi pasteur, Kirin and the Statens Serum Institut.
- » The Company's leading product, a prophylactic vaccine against Japanese Encephalitis, successfully concluded pivotal Phase III clinical trials in 2006. The regulatory process towards a Biologics License Application (BLA) to the U.S. Food and Drug Administration (FDA) has been initiated. The broad development pipeline includes a Pseudomonas vaccine in Phase II, a therapeutic vaccine for Hepatitis C in Phase II, partnered vaccines for Tuberculosis and S.aureus which are in Phase I, and five products focused on infectious diseases in preclinical development. Intercell is listed on the Vienna stock exchange under the symbol "ICLL".
- » *For more information please visit: www.intercell.com*

// 02 // Success 2006

- » JAN 9 Intercell receives € 1 million milestone payment from partner sanofi pasteur for bacterial vaccine candidate
- » JAN 12 Intercell's Japanese Encephalitis vaccine safe in Phase III trials
- » JAN 30 Orphan Drug status for Intercell's Japanese Encephalitis vaccine granted by the European Commission
- » JAN 31 Intercell's Hepatitis C vaccine meets success criteria for further development – route and frequency of administration optimized
- » FEB 21 Enrolment of Phase III study for Intercell's Japanese Encephalitis vaccine completed
- » APRIL 6 Intercell and Kirin enter strategic alliance to develop antibodies for the treatment of severe pneumococcal infections
- » APRIL 24 European Patent for Intercell's synthetic adjuvant IC31™ granted
- » MAY 11 Intercell and Merck enter strategic alliance to develop monoclonal antibodies for the treatment of severe S.aureus infections
- » MAY 31 Positive results for Intercell's Japanese Encephalitis vaccine in pivotal clinical trial – Phase III meets primary endpoint
- » JUNE 13 Intercell agrees on a marketing and distribution agreement for its Japanese Encephalitis vaccine
- » JUNE 30 Intercell AG successfully completes its combined primary and secondary public offering
- » AUG 24 Positive results for Intercell's Japanese Encephalitis vaccine in pivotal Phase III Safety trial
- » SEPT 6 Collaboration with PATH for the development of Intercell's S. pneumoniae vaccine
- » SEPT 12 Intercell enters into strategic partnership with Wyeth for the use of its IC31™ adjuvant in various selected infectious disease vaccines
- » SEPT 26 Intercell's therapeutic Hepatitis C T-cell vaccine (IC41) advances to next Phase II clinical trial
- » OCT 12 Intercell initiates regulatory process for its Japanese Encephalitis vaccine to the U.S. Food and Drug Administration (FDA)
- » OCT 13 Intercell AG wins European Biotechnica Award 2006
- » OCT 26 Intercell and Merck expand strategic alliance to develop prophylactic vaccine and antibody treatments against Group A Streptococcus
- » NOV 13 Program for the development of a novel vaccine against middle ear infection started – € 2.3 million funding by the European Commission
- » DEC 6 Intercell announces intention to acquire Pelias AG to strengthen its product portfolio and strategic focus in hospital-acquired infections
- » DEC 12 Intercell's therapeutic Hepatitis C vaccine safe in combination with standard therapy
- » DEC 19 Prophylactic S.aureus subunit vaccine shows promising results

// 03// Milestones 2007/2008

- >> JAPANESE ENCEPHALITIS VACCINE:
- >> EMEA filing
- >> Supply agreement with US Army
- >> Clinical trials in children in endemic countries
- >> Marketing and sales agreement for Japanese market
- >> Market launch (early 2008)

- >> HEPATITIS C VACCINE:
- >> Complete Phase II clinical trial in chronic HCV patients
- >> Define future strategy as stand-alone or combination therapy

- >> HOSPITAL ACQUIRED INFECTIONS
- >> Commence Phase II for S.aureus vaccine (with Merck)
- >> Commence Phase II/III in Pseudomonas vaccine
- >> Progress preclinical vaccine candidates into Phase I trials

- >> TECHNOLOGIES AND STRATEGIC ALLIANCES:
- >> Commence Phase II for Tuberculosis vaccine (with SSI)
- >> Additional license deals for AIP® and IC31™ technology platforms
- >> Position IC31™ as new “gold standard” for adjuvants

GERD ZETTLMEISSL, CEO

ALEXANDER VON GABAIN, CSO

WERNER LANTHALER, CFO



Statement by the Management Board

» Dear Shareholder,

2006 proved to be yet another outstanding year for Intercell. Our strong commitment, efforts and strategic decisions have led to important progress. With the first product ready for market, innovative technologies, a strong product pipeline and strategic partnerships we are preparing our company for future growth.

» **A CLEAR STRATEGY TO MARKET THE FIRST PRODUCT**

2006 has been a pivotal year in the development of our leading product – a prophylactic vaccine against Japanese Encephalitis, in which we achieved important milestones and prepared our vaccine for an anticipated market launch in early 2008. The vaccine successfully completed pivotal Phase III clinical trials, showing positive safety and immunogenicity data. Based on this data, the regulatory process towards a Biologics License Application (BLA) to the U.S. Food and Drug Administration (FDA) has been initiated. Furthermore, we made significant progress in preparing our global marketing and distribution process, and selected Novartis as our marketing and distribution partner in the United States, Europe and certain other markets in Asia and Latin America.

» **BECOME A LEADER IN AN ATTRACTIVE NEW MARKET**

With an annual cost burden of \$5-10Bn in the US and \$2Bn in the UK nosocomial infections represent one of the major emerging markets with a high demand for medical innovation. Through the acquisition of Pelias and important progress in our own and partnered programs (e.g. S.aureus vaccine partnered with Merck) we especially focused on expanding our leading position as a technology provider and vaccine developer in this important and attractive field.

» **HEPATITIS C – NEXT STEP AHEAD**

In the previous year, we successfully advanced our therapeutic Hepatitis C T-cell vaccine which is exploring a completely new field in vaccinology. Based on results of the optimization trial, we started a Phase II – proof of concept – clinical trial in naive chronic Hepatitis C patients. This study aims to show significant and sustained reductions of viral load correlating with T-cell response. We are expecting first results mid 2007. These results will be crucial to defining the best forward strategy for this product candidate.

» **BROADEN THE PIPELINE AND CREATE BUSINESS OPPORTUNITIES**

Over the course of the last year, we have made significant progress within our existing partnerships, not only in terms of increasing revenues, but also in strengthening our own pipeline. In 2006, we entered into important new collaborations to develop novel vaccine and antibody products in the area of infectious diseases. These included, amongst others, major vaccine players like Merck & Co., Kirin, Wyeth and the US non-profit organization PATH. Additionally, we significantly advanced the commercialization of our technology platforms. Our proprietary adjuvant IC31™ demonstrated an outstanding profile to stimulate a strong T-cell immune response in humans in a Phase I clinical trial for a Tuberculosis vaccine. These results prove the scientific concept of IC31™ and encourage broad use in a variety of prophylactic and therapeutic vaccines.

» **A STRONG AND SOLID FINANCIAL POSITION AT YEAR END 2006 FOR FURTHER GROWTH**
 For the first time, we were able to decrease losses significantly – this was due to the outstanding scientific and commercial potential of our technology platforms and product candidates. Our aggregate annual revenues increased from € 8.5 million in the year 2005 to € 23.5 million in the year 2006, or by 176.5 percent. This strong increase was due to higher collaborations and licensing revenues resulting from new partnerships with pharmaceutical companies and from significant progress made in the existing collaborations. Research and development costs increased from € 28.5 million in 2005 to € 31.0 million in 2006, or by 8.8 percent. R&D costs enabled to drive all programs forward at full speed to create the maximum value out of the product and technology platforms. As of December 31, 2006, we had liquid funds of € 94.4 million of which € 28.9 million was cash and cash equivalents.

» **A SOLID FOUNDATION TO SUSTAIN OUR GROWTH**
 Looking ahead, we will continue to follow our strategy of building a solid foundation to sustain our future growth. For 2007, we have again set priorities on which we will focus our resources and efforts:

- » Submit full BLA for the Japanese Encephalitis vaccine - prepare for the anticipated US market launch early 2008
- » Complete Phase II clinical trial for our therapeutic Hepatitis C and define future strategy as stand-alone or combination therapy
- » Commence Phase II clinical trials for both the Tuberculosis vaccine (with the Statens Serum Institut) and the S.aureus vaccine (with Merck)
- » Close additional strategic partnerships for AIP® and IC31™ technology platforms


We would like to thank all our employees for their outstanding commitment and efforts in 2006 and our shareholders for their long-term confidence in our company.



GERD ZETTLMEISSL, CEO



ALEXANDER VON GABAIN, CSO



WERNER LANTHALER, CFO

get infected
with passion!



Sporus amantis laboram

BE INFORMED – VISIT OUR COMPANY As a newcomer, it might be difficult to imagine what Biotech is all about. How is a Biotech company actually set up and what markets does it operate in? Which strategies need to be implemented and how are the research projects funded? In this section, we would like to give you a short overview of our corporate history, business strategy, markets and, of course, introduce you to our team. If you would like to learn more about Biotech, then please come and visit us. We welcome anyone who is interested in visiting our company and learning more about our business. *Please be invited to our Shareholders Day, which is planned for November 30, 2007.*

- » **A STRONG AND SOLID FINANCIAL POSITION
AT YEAR END 2006 FOR FURTHER GROWTH**
 - » Technologies created significant value - revenues of € 23.5 million, an increase of 176.5 percent - driven by successful progress in existing and new partnerships
 - » R&D costs of € 31.0 million enabled to drive all programs forward at full speed to create the maximum value out of the technology platforms
 - » Strong cash position with € 94.4 million (plus € 2.9 million cash acquired with Pelias)
 - » 35.9 percent decrease of net loss from € 25.1 million in 2005 to € 16.1 million in 2006 represents the turnaround of the previous trend of increasing annual losses

- » **JAPANESE ENCEPHALITIS VACCINE -
A CLEAR STRATEGY TO MARKET THE FIRST PRODUCT**
 - » Intercell's Japanese Encephalitis vaccine successfully completed pivotal Phase III clinical trials, showing positive safety and immunogenicity data - Regulatory process towards a Biologics License Application (BLA) to the U.S. Food and Drug Administration (FDA) initiated – Partnership with Novartis for the marketing and distribution of the vaccine in the United States, Europe and certain other markets in Asia and Latin America concluded

- » **NOSOCOMIAL INFECTIONS -
BECOME A LEADER IN AN ATTRACTIVE NEW MARKET**
 - » S.aureus vaccine partnered with Merck: Promising results in Phase I clinical studies – Phase II expected to start in 2007
 - » Acquisition of Pelias completed – Pseudomonas vaccine with promising Phase II data successfully integrated into Intercell's pipeline – Start of Phase II/III planned for end 2007/early 2008
 - » Enterococcus/Klebsiella vaccines: AIP® program accelerated in order to establish most competitive franchise in industry

» **INTERCELL'S HEPATITIS C VACCINE -
NEXT STEP AHEAD**

- » Intercell's therapeutic Hepatitis C T-cell vaccine advanced to next Phase II clinical trial in chronic Hepatitis C patients using the optimized route and frequency of administration. Furthermore, the vaccine demonstrated a good safety profile when used concomitantly with standard therapy (Interferon and Ribavirin)
- » Phase II “proof – of – concept” study fully recruited - first data expected for mid 2007
- » Success criteria defined: Significant and sustained reductions of viral load correlating with T-cell response
- » Forward strategies comprise options for mono- and/or combination therapies

» **INTERCELL'S TECHNOLOGIES - BROADEN THE
PIPELINE AND CREATE BUSINESS OPPORTUNITIES**

- » Strategic alliance with **Kirin** Brewery Co., Ltd. (Tokyo, Japan) to develop human monoclonal antibodies for the treatment of severe pneumococcal infections
- » Strategic Alliance with **Merck & Co., Inc.** (US) for the development of monoclonal antibodies against severe S.aureus infections
- » Additional strategic alliance with **Merck & Co., Inc.** (US) to develop a prophylactic vaccine against Group A Streptococcus
- » Strategic alliance with **Wyeth** for the use of Intercell's IC31™ adjuvant in various selected infectious disease vaccines
- » Collaboration with **PATH** for the development of Intercell's Streptococcus pneumoniae vaccine
- » AIP® technology geared up to deliver further new product candidates for our own development and/or partnering activities in 2007

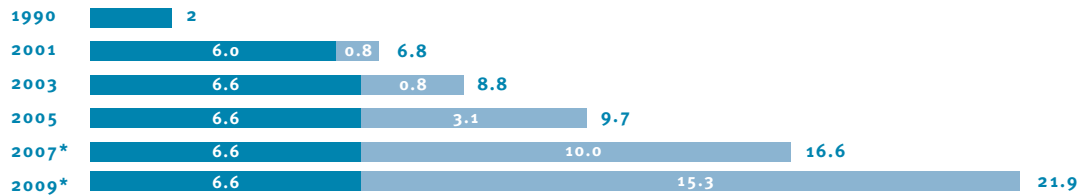
//01// Industry and markets

The vaccine industry has historically been dominated by five major companies, which derive value from high volume sales or relatively inexpensive commodity vaccine products. However, recent years have increasingly seen the introduction of higher-value offerings for new important medical areas, such as Wyeth's Prevnar, and the involvement of a greater number of smaller vaccine players, changing the dynamics of this sector. The five major players – sanofi pasteur, GSK, Merck&Co., Inc., Wyeth and Novartis generated around 91% of the \$ 11.6 billion annual worldwide sales in 2006, with the remaining sales being generated primarily by mid-size companies such as Acambis, Baxter Vaccines, Crucell and Solvay.

The vaccine market continues to represent a fast-growing industry with an expected annual growth rate of 16 % (CAGR 2003 – 2009). The market potential of novel and therapeutic vaccines is expected to increase by 38% (CAGR 2003 – 2009).

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GLOBAL VACCINE MARKET (US \$ BN)



TRADITIONAL AND COMBINATIONS
NOVEL AND THERAPEUTIC VACCINES

*ESTIMATED

Source: Datamonitor, "Commerical Insights: Vaccines", July 2004

Frost & Sullivan, Theta Reports, Genesis

Ixis, March 2007

>>

POSITIVE VACCINE MARKET OUTLOOK

- >> Global vaccine market is growing at 16% p.a.
- >> Vaccines will continue to be a favored alternative investment to other biotech and pharmaceutical companies
- >> Investors focus on key disease areas, e.g. Hepatitis C, serious hospital acquired infections and cancer
- >> Although the majority of sales today are for pediatric vaccines, elective vaccination of adolescents, adults and the elderly is gaining profile and volume
- >> Target markets include travel/military vaccination markets, biodefense vaccine applications and the high-profile influenza market
- >> Under-penetrated markets have access to political/regulatory support

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ATTRACTIVE RISK/REWARD PROFILE FOR VACCINES

- >> Higher probability of success
- >> Longer product life cycles
- >> Limited competition (e.g. no generics)

>>

NOVEL AND SAFER VACCINE TECHNOLOGIES

- >> Trend towards biotech-based products
- >> Introduction of therapeutic vaccines

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HIGH ENTRY BARRIERS FOR VACCINES

- >> Complex biological and manufacturing processes
- >> Need for long-term investment in R&D as well as manufacturing capacity and capability
- >> Increasing regulatory burden

Source: Merrill Lynch 2005, Ixis 2007

The need for long-term investment in R&D, considerable manufacturing capacity and capability, and increasing regulatory burdens have established high barriers to vaccine field entry and encouraged industry consolidation to bring the acquirer access to products, expertise or expanded geographical reach. Recent examples include GSK's acquisitions of ID Biomedical and Corixa, Novartis' acquisition of Chiron, Crucell Biotech's acquisition of Berna Biotech and Pfizers' acquisition of PowderMed.

» **GENERAL BIOTECH INDUSTRY TRENDS 2007**

- » A growing pipeline with more Phase III results: The heavy investment in R&D by the industry led to a strong pipeline, with 218 approved products and more than 1,000 products in clinical trials. In 2006, the pipeline grew by 7%, which is faster than it has done in the last five years.
- » Sales of products will continue to increase and more biotech companies will become profitable for the first time. In addition, despite stricter regulatory oversight, more companies will bring products to the marketplace.
- » Biotech will continue to become more global as companies, particularly in the US, look to India and China for their manufacturing needs and to conduct clinical trials.
- » The M&A trends will not slow down with the pharmaceutical industry desperate to access pipeline and innovation. Both big pharmaceutical and big biotech companies will be competing for companies with advanced product pipelines.

Source: Goldman Sachs, Burrill & Company 2007

» **MARKETS WITH HIGH UNMET MEDICAL NEED**

Intercell focuses on market opportunities in areas with high unmet medical needs.

The company's strategy is to rapidly move existing product candidates in different stages of clinical development towards registration and commercialization.

The progress in clinical development is based on a strong commitment to penetrate the target markets as quickly as possible. With the initiation of the regulatory process toward a Biologics License Application (BLA) to the U.S. Food and Drug Administration (FDA), Intercell's most advanced vaccine program, a prophylactic vaccine against Japanese Encephalitis, is on track to its expected market launch in early 2008.

» **OUR STRATEGY**

Intercell's strategy is to create a fully integrated vaccine company by developing, manufacturing, and commercializing innovative prophylactic and therapeutic vaccines targeting infectious diseases with substantial unmet medical needs. To implement this strategy, the company intends to rapidly complete late stage clinical trials, obtain regulatory approvals, prepare for the commercial launch and continue the current vaccine development projects. The existing preclinical projects will be advanced to the clinical development stage and the proprietary core technologies will be utilized to discover new product candidates. Selected product candidates and programs are offered to third parties for commercial collaborations and co-development partnerships.

»» COMMITTED TO THE TEAM

Intercell's corporate culture reflects the international character of its highly-qualified and motivated workforce. Intercell empowers its workforce to attain their personal goals and those of the company in an environment that is multicultural, supportive and well-structured. Intercell has rapidly met the challenge of assembling a first class international team. With a total workforce of about 190 by end 2006, Intercell is moving its research and development projects rapidly forward. Intercell's outstanding personnel strategy has produced a leadership team made up of recognized experts from the vaccine industry, molecular biology, immunology and finance. This ensures that success can be achieved both in research, product development, business development and financial control.

Right from inception, Intercell's staff has been international and multicultural. Over the last eight years the total headcount has risen from six to 190. Intercell's manufacturing facility in Livingston (Scotland), which focuses on manufacturing, product development and quality, runs with a top-class workforce that numbered 50 team members at the end of 2006. In total, 39 new team members were recruited in 2006, among them, experts in the field of manufacturing, marketing & sales as well as clinical and business development. As of December 31, 2006, 72.3% of Intercell's staff work in the field of research, development and manufacturing. 26.7% were involved in selling, general and administrative activities not associated with research and development activities. In total, 56% of Intercell's staff are university graduates. 45% of our key positions are held by women; the overall percentage of female employees is 71%.

»» INVESTORS IN PEOPLE

In 2006, Intercell has been officially recognized as an "Investor in People" for its continuous commitment to the development of its employees.

The ability, motivation and pursuit of success of its staff members lie at the center of Intercell's operations. Progress largely depends on maximum commitment and the motivation of the people. Intercell is aware that job satisfaction is not only essential for the company's success, but that actions must be taken to actively cultivate it. Intercell offers its first-class staff, many of whom are recognized authorities in the fields of research, the vaccine industry and finance, the opportunity to work together in an attractive environment.

» GET TO KNOW OUR MANAGING BOARD

Intercell's Board of Directors leads the company through all major challenges and upcoming developments in the year. At Intercell, we always keep all interested parties informed about our corporate plans, significant business opportunities and our corporate development. Intercell's Board of Directors, therefore, presents the company and its recent developments at various financial and scientific conferences throughout the year. We invite you to come and meet our Management at one of these presentations. In addition, your visit to our headquarters in Vienna is highly appreciated.

We welcome every kind of enquiry and will answer your questions readily and thoroughly. Our Communication Department can be contacted via email to communications@intercell.com or by phone: +43-1-20620-303.

» GERD ZETTLMEISSL – CEO

Gerd Zettlmeissl joined Intercell as Chief Operating Officer in 2001. After having been responsible for Business, R&D and Manufacturing Operations at Intercell for four years, Gerd Zettlmeissl was appointed Chief Executive Officer in the fall of 2005.

Gerd Zettlmeissl's scientific background is in Molecular Biology and Protein Biochemistry. After five years of academic research at the University of Regensburg and at the Institut Pasteur in Paris, he joined Behringwerke AG (Marburg, Germany) in 1985.

After about 10 years spent in leading various functions in research and development of biotechnological products, he gained his first experiences in General Management by leading and refocusing the Vaccine Unit of the company between 1994 and 1996 and was highly involved in the merger of the business with Chiron during that period. Moving with the business to Chiron, he was appointed to head the worldwide Industrial Operations and to lead a fundamental restructuring and efficiency improvement project of Chiron's Vaccine Business Unit with sites in Germany, Italy, India, Netherlands and the United States. From the beginning of 2000 onwards, in addition to his global responsibilities, he was CEO of Chiron's German subsidiary, Chiron Behring. He is the author of numerous scientific publications and inventor/co-inventor of numerous patents in the field of biotechnology.

Beside his role as CEO, he resumes direct responsibility for Product Development, IP and Licensing.

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ALEXANDER VON GABAIN – CSO

Alexander von Gabain, PhD, is Intercell's Chief Scientific Officer and Full Prof. of Microbiology at the University of Vienna (leave of absence). In 1998, he founded Intercell and led the company as CEO from a spin-off to a publicly listed vaccine company (2005, ICLL; Vienna Stock Exchange) with approx. 200 employees worldwide today. Previously, he was Chairman of the Department of Microbiology and Genetics at the renowned research Campus of the Vienna Biocenter/IMP.

Alexander von Gabain's scientific career has taken him to institutions such as the Universities of Heidelberg and Stanford as well as to the Karolinska Institute in Stockholm, where he served as professor of medical biotechnology and is foreign adjunct professor of vaccinology today. His research interests are in the fields of microbial gene expression, host-parasite interactions and immunology. The results of his research in gene expression have found their way into advanced textbooks on bacterial physiology. He is a member of several professional organizations, is on the supervisory board of biotech enterprises, co-edits scientific journals and has organized countless high impact conferences.

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WERNER LANTHALER – CFO

Werner Lanthaler is Intercell's Chief Financial Officer. Previously, he was Head of Marketing and Communications of the Federation of Austrian Industry and, prior to that, a senior management consultant at McKinsey & Company International.

His academic accomplishments include a doctorate from the Vienna University of Economics and Business Administration and post graduate degrees from Harvard University. He has considerable experience working in the labor and capital markets of the United States, South America and Europe. Werner Lanthaler is also the author and co-author of a wide range of books and articles. At Intercell, his responsibilities include work in the departments of Finance, Administration, Human Resources, Investor Relations, and Marketing & Sales.

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INTERNATIONAL EXPERTISE WITHIN OUR SUPERVISORY BOARD

Throughout the year 2006, the Management Board kept the Supervisory Board informed about the Company's financial position, corporate plans and strategic development. The Supervisory Board monitored Company management on a regular basis throughout the year and was involved at an early stage in decisions of major importance. With expertise in the field of vaccine development combined with finance and capital market know-how from distinguished careers, the Supervisory Board provided advice related to the Company's strategic developments and other important issues.

» MICHEL GRÉCO

Michel Gréco is the Chairperson of Intercell's Supervisory Board. He is a member of the Boards of Directors of VaxGen, Inc., Argos Therapeutics, Inc., Immutep SA, Texcell SA, Vivalis SA, Glycovaxyn AG and Vakzine Project Management GmbH (VPM). He is also an adviser to WHO (Flu, Measles, TB) and a Board member of the Global Tuberculosis Vaccines Foundation (AERAS), the International Aids Vaccines Initiative (IAVI) and the International Vaccine Institute (IVI). Previously, Mr. Gréco was Deputy Chief Executive Officer of Aventis Pasteur S.A., now Sanofi Pasteur S.A.

» ERNST GÜNTER AFTING

Ernst Günter Afting is the Vice-chairperson of Intercell's Supervisory Board and has been a member of our Supervisory Board since February 1999. In November 2005 he retired as President and Chief Executive Officer of the National Research Center for Environment and Health in Munich, Germany, one of the largest German government-funded research centers. Previously, he was President and Chief Executive Officer of Roussel Uclaf S.A. in Paris, France, and was also Chairman and CEO of the Pharmaceuticals Division of the Hoechst AG group in Frankfurt / Germany. Prof. Afting serves as industrial advisor to venture capital firms and is a Supervisory Board member of the following biotech companies: Enanta Pharmaceuticals Inc., Sequenom Inc. and Olympus Europe.

» MUSTAPHA (STAPH) LEAVENWORTH BAKALI

Staph Bakali is the former COO of ID Biomedical, played a significant role in transforming the company from an R&D organization into a fully-integrated biotech company and its subsequent acquisition by GlaxoSmithKline in 2005. He gained significant entrepreneurial experience in building and managing successful organizations in the Pharmaceutical and Biotech industry in his previous employments at PowderJect, Chiron and Smithkline Beecham. He is currently a board member of Phoqus Group Plc, Napo Pharmaceuticals, and Osisko Exploration Corporation.

» DAVID EBSWORTH

David Ebsworth is a non-executive director and consultant in the healthcare industry. He is currently also a Board member of CuraGen Corporation, SkyePharma PLC, Renovo Group PLC, Willex AG, A&D Pharma NV, Curacyte AG, Atani Ltd and Xention Ltd. Previously, he was the Chief Executive Officer and a member of the Board of Oxford GlycoSciences PLC, President and General Manager of the pharmaceutical business group of Bayer AG and a member of the Board of Schein Pharmaceuticals Inc.

» JAMES SULAT

James Sulat is the President and Chief Executive Officer of Memory Pharmaceuticals Corporation. Previously, he was Senior Executive Vice President of R.R. Donnelley & Sons, Chief Financial Officer of Chiron Corporation and Chief Financial Officer of Stanford Health Services, Inc. Mr. Sulat is also a member of the Board of Directors of Maxygen, Inc.

» HANS WIGZELL

Hans Wigzell has been Chief Scientific Advisor to the Swedish government since 1999 and Professor at the Karolinska Institute, Sweden. He is a Board member of Raysearch AB and Biovitum AB and of several foundations in Sweden, EU and USA. He graduated from the Karolinska Institute in 1967, where he spent most of his research career, becoming Professor of Immunology in 1982 and President of Karolinska Institute from 1995-2003. He was Chairman of the Nobel Committee for Physiology or Medicine from 1990-1993 and is member of several Swedish and International academies.

» **RENOWNED INTERNATIONAL SCIENTISTS ON BOARD**

With their broad knowledge, unique expertise and worldwide networks in the fields of infectious diseases, microbiology, immunology and molecular biology, Intercell's Scientific Advisory Board supports the Company through its next stage of growth. By listening to the advice of its Scientific Advisory Board members, the company seeks to maintain high scientific standards in the field of research and development.

» RAFI AHMED

Rafi Ahmed is currently Professor of Microbiology and Immunology, and Director of the Emory Vaccine Center at Emory University School of Medicine in Atlanta, GA, and also a Georgia Research Alliance Eminent Scholar. He earned his undergraduate degree from Osmania University, India and his Ph.D. from Harvard University in Cambridge, Massachusetts. After completing his postdoctoral training in the Department of Immunology at Scripps Clinic and Research Foundation in La Jolla, CA, he joined the Department of Microbiology and Immunology at the UCLA School of Medicine. He was at UCLA from 1984-1995 and moved to Emory University in 1995. His research efforts are directed towards understanding the mechanisms of immunological memory and using this knowledge to develop new and more effective vaccines.

» HUBERT E. BLUM

Dr. Hubert E. Blum holds a doctorate from the University of Freiburg/Germany. He is a Professor of Medicine and Chairman of the Department of Medicine at the University Hospital Freiburg. He did his postgraduate training in biochemistry and molecular virology at the University of Washington in Seattle, the University of California in San Francisco and the Massachusetts General Hospital, Harvard Medical School in Boston. His major scientific interests are chronic viral infections, especially Hepatitis B and C, and liver cancer.

» STANLEY N. COHEN

In 1973, Dr. Cohen and his colleague Dr. Herbert W. Boyer revolutionized the disciplines of biology and chemistry with their discovery of methods to transplant and clone genes, and are the

inventors on the basic patents underlying the field of genetic engineering. Among Dr. Cohen's awards are the National Medal of Science, the National Medal of Technology, the Lasker Award for Basic Medical Research, the Wolf Prize in Medicine, the Lemelson-MIT Prize, the Albany Medical Center Prize in Medicine and Biomedical Research, and the Shaw Prize in Life Science and Medicine. He is a member of the U.S. National Academy of Sciences, and the National Inventors Hall of Fame. Dr. Cohen received his doctorate from the University of Pennsylvania and formerly was Chair of the Department of Genetics at Stanford.

>> **FRANZ X. HEINZ**

Dr. Franz X. Heinz holds a doctorate from the University of Vienna. Since 1999 he has been Full Professor of Virology and since 2004 Director of the Institute of Virology at the Medical University of Vienna. Previously, he was Chairman of the WHO steering committee for the development of Dengue and Japanese Encephalitis vaccines, and currently he is vice-president of the international virological society encompassing Germany, Switzerland and Austria.

>> **STEFAN H.E. KAUFMANN**

Dr. Stefan H.E. Kaufmann holds a PhD from the Johannes Gutenberg University of Mainz, Germany. He is Founding Director of the Max Planck Institute of Infection Biology Berlin, Germany, where he directs the Department of Immunology. He is also honorary Professor at the Charité, Berlin, and member of the Berlin Brandenburg Academy of Sciences and the German Academy of Natural Sciences, Leopoldina. He is one of the most cited immunologists. Previously, he was Chairman of the Department of Immunology at the University of Ulm, Germany. He is President of the European Federation of Immunological Societies.

>> **STAFFAN NORMARK**

Staffan Normark is a professor of Microbiology at the MTC Center of the Karolinska Institute in Stockholm, Sweden, a member of the Nobel Prize Committee for Medicine and the Chairman of the Swedish Strategic Research Fund. Previously, he was Chairman of the Department for Microbiology at Washington University, St. Louis, Missouri, United States.

>> **HANS WIGZELL**

Hans Wigzell has been Chief Scientific Advisor to the Swedish government since 1999 and Professor at the Karolinska Institute, Sweden. He is a Board member of Raysearch AB and Biovitum AB and of several foundations in Sweden, EU and USA. He graduated from the Karolinska Institute in 1967, where he spent most of his research career, becoming Professor of Immunology in 1982 and President of Karolinska Institute from 1995-2003. He was Chairman of the Nobel Committee for Physiology or Medicine from 1990-1993 and is member of several Swedish and International academies.

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A WELL-BALANCED PRODUCT PORTFOLIO is crucial for the success of a Biotech company. By clearly defining product candidates and advancing them through clinical trials, we aim to develop a balanced portfolio of promising product candidates to generate a regular and sustainable flow of new products coming to the market. Intercell focuses on developing novel vaccines for the prevention and treatment of infectious diseases. Our R&D effort is devoted to sustainable medical advancement and human well-being.

» A BROAD AND DIVERSE PRODUCT PIPELINE

Intercell's research and development pipeline consists of several novel vaccines and antibody therapies in various stages of development to treat or prevent infectious diseases. The most advanced product in the pipeline is a prophylactic vaccine against Japanese Encephalitis which has completed pivotal Phase III clinical trials in 2006. The regulatory process towards a Biologics License Application (BLA) to the U.S. Food and Drug Administration (FDA) has been initiated. The vaccine is on track to enter the market in early 2008. The broad development pipeline includes a Pseudomonas vaccine in Phase II, a therapeutic vaccine for Hepatitis C in Phase II, and partnered vaccines for Tuberculosis and S.aureus which are in Phase I clinical trials.

» FOLLOW-UP CANDIDATES

Apart from its clinical product candidates, Intercell has built up a preclinical pipeline of vaccine candidates against other infectious diseases, including a Streptococcus pneumoniae vaccine, a Group A Streptococcus vaccine, a Travelers' Diarrhea vaccine and a Group B Streptococcus vaccine. Therapeutic antibodies are another potential application for the antigen platform, and Intercell and its partners are currently pursuing Streptococcus pneumoniae, Group A and B Streptococcus and S.aureus as targets.

» PRODUCT DEVELOPMENT PIPELINE

CANDIDATE	VACCINE TYPE	STATUS	EXPECTED MILESTONES	PARTNER
CLINICAL VACCINES				
1. Japanese Encephalitis (JEV) vaccine	Prophylactic	Phase III	Market launch early 2008*	Novartis (M&D)
2. Pseudomonas vaccine	Prophylactic	Phase II	Phase II/III to start 2007/08	In-house
3. Hepatitis C (HCV) vaccine	Therapeutic	Phase II	Phase II data 2007	In-house
4. S.aureus vaccine	Prophylactic	Phase I	Phase II to start 2007	Merck&Co.
5. Tuberculosis vaccine	Prophylactic	Phase I	Phase II to start 2007	SSI
PRECLINICAL VACCINES				
6. S.pneumoniae vaccine	Prophylactic	Preclinical	Phase I to start 2008	In-house
7. Bacterial vaccine**	Prophylactic	Preclinical	Phase I ***	sanofi pasteur
8. Group A Streptococcus vaccine	Prophylactic	Preclinical	Phase I ***	Merck&Co.
9. Travelers' Diarrhea vaccine	Cross-protective/Prophylactic	Preclinical	Phase I ***	In-house
10. Group B Streptococcus vaccine	Prophylactic	Preclinical	Phase I ***	To be partnered
ANTIBODIES				
11. S.aureus antibodies	Antibodies in infected patients	Preclinical	Phase I to start 2007/08	Merck&Co.
12. S.pneumoniae antibodies	Antibodies in the elderly	Preclinical	Phase I to start 2008/09	Kirin
13. Group A Streptococcus antibodies	Antibodies in infected patients	Preclinical	Phase I ***	Merck&Co.
14. Group B Streptococcus antibodies	Antibodies in premature newborn	Preclinical	Phase I ***	To be partnered

* Filing process with FDA initiated

** Undisclosed indication

*** Timing to be defined

»» PRODUCT DEVELOPMENT PROGRESS 2006

In 2006, we successfully advanced our clinical programs. Our leading product candidate, a prophylactic vaccine against Japanese Encephalitis, has successfully completed pivotal Phase III immunogenicity and safety clinical trials. Our Hepatitis C vaccine has completed an optimization trial to determine the optimal route and frequency of administration. Based on these results Intercell started a Phase II – proof of concept – clinical trial in naive chronic Hepatitis C patients. Furthermore, the vaccine candidate has successfully been tested in a Phase II combination trial with Interferon/Ribavirin showing a good safety profile and indicating that there was no apparent interference of Interferon/Ribavirin with vaccine immunogenicity.

We have also achieved major milestones within our partnered vaccine programs. Our S.aureus vaccine partnered with Merck showed promising results in Phase I clinical studies. The start of Phase II trials is expected in 2007. The acquisition of Pelias was another strategic decision that strengthened our leading position in the field of nosocomial infections and added an advanced and clinical stage product to our pipeline. The Pseudomonas vaccine is expected to start Phase II/III end 2007/early 2008.

At the same time, our joint vaccine program with the Statens Serum Institut on the development of a novel Tuberculosis vaccine using Intercell's proprietary adjuvant IC31™ has completed Phase I clinical trials showing good safety and immunogenicity results. Further clinical trials are planned to start in 2007.

»» IC51 – JAPANESE ENCEPHALITIS VACCINE

Intercell is developing a new vaccine against the infection with the Japanese Encephalitis Virus (JEV). This JEV vaccine is based on the purified, inactivated SA14-14-2 JEV-strain that is grown in Vero cells. Global large-scale safety and immunogenicity Phase III trials have been completed in 2006. The regulatory process towards a Biologics License Application (BLA) to the U.S. Food and Drug Administration (FDA) have been initiated and the vaccine is on track to enter the market in early 2008.

»» JAPANESE ENCEPHALITIS

Japanese Encephalitis Virus (JEV) is a mosquito-borne flavivirus that causes encephalitis in humans, predominantly in children. It is a major health problem throughout Asia where approximately 3 billion people live in JE-endemic areas. JEV also presents a threat to travelers and military personnel from industrialized countries visiting endemic areas. The disease is usually severe, resulting in residual neuropsychiatric sequelae in up to 50% of cases and a fatal outcome in about 25% of all cases.

According to the WHO, at least 15,000 deaths occur annually (2001) as a consequence of JEV infection. In heavily endemic areas, incidence ranges from 10 to 100 cases per 100,000 inhabitants. About 50,000 cases of Japanese Encephalitis are reported annually in Asia. Most experts agree that official reports underestimate the true numbers because of partial lack of systematic surveillance.

Because of the continuous growth in international travel, the number of people potentially exposed to the Japanese Encephalitis Virus is expected to increase in the years to come.

>> CURRENT TREATMENT AND PREVENTION

The only vaccine presently marketed is licensed and distributed in the United States by sanofi pasteur. It is not licensed in the EU, but is available on an individual basis to travelers. It must be administered three times in a month, and is protective in 75-90% of subjects. Due to its manufacturing process on mouse brain, there are inherent safety concerns with this vaccine, including severe neurological symptoms and hypersensitivity reactions.

Source: WHO, www.who.int

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>> INTERCELL'S VACCINE

>> DESCRIPTION

Intercell has expertise and technology in the field of development of vaccines against various infectious diseases.

Intercell's vaccine is made from purified, inactivated Japanese Encephalitis virus strain SA14-14-2, produced on Vero cells and is adjuvanted with aluminum hydroxide. The vaccine is intended for intramuscular injection.

>>

EARLY CLINICAL DEVELOPMENT

In former Phase II studies, various doses and vaccination schedules have been tested and compared with the mouse brain-derived vaccine. The Intercell investigational JEV vaccine was shown to be safe and induced excellent immune responses. Seroconversion rates up to 100% were observed. All volunteers completed the protocol without serious adverse events. In addition to the high antibody titers and to the high levels of seroconversion after the primary immunization, the Intercell investigational JEV vaccine showed immunity. Persistency studies showed seroconversion and protective antibody titers for two years.

>>

RECENT DEVELOPMENT PROGRESS

In 2006, both the pivotal Phase III immunogenicity and safety trial could be completed successfully, showing positive results:

The **pivotal Phase III safety trial** was conducted at 39 study sites in Austria, Germany, Romania, Israel, Australia, New Zealand and in the US, and included 2,683 randomized subjects. The study was designed to analyze the safety and tolerability of Intercell's investigational vaccine in a multicenter, multinational, double-blind, placebo-controlled randomized study. Major endpoints of this study were the frequency of adverse events in both test groups, as well as local tolerability findings in both groups. Analyses of this trial show that Intercell's investigational Japanese Encephalitis vaccine was systemically and locally well tolerated. Overall, the local tolerability and general safety profile of the Intercell JE vaccine appeared to be comparable with placebo.

The **pivotal Phase III immunogenicity trial** was conducted at study sites in the United States, Austria, and Germany and included 867 randomized subjects. The clinical trial was designed to compare the immunogenicity of Intercell's investigational vaccine with the mouse brain derived JE-VAX® (distributed by sanofi pasteur, produced by Biken) in a multicenter, multinational, observer-blinded, randomized controlled trial. The primary endpoint of non-inferiority of Intercell's investigational vaccine compared with JE-VAX® was met. It comprised both the amount of antibodies in the blood (expressed as geometric mean titer or GMT) and the percentage of subjects reaching protective antibody titers (known as the seroconversion rate).

Furthermore, Intercell's JEV vaccine was granted orphan drug status by the European Commission, resulting in ten years of market exclusivity in the European Union upon product registration.

» MARKET LAUNCH

Based on these positive Phase III results, Intercell has already initiated the regulatory process towards a Biologic License Application (BLA) in the US for its Japanese Encephalitis vaccine in October 2006.

After licensure, first product sales are expected in 2008.

» A CLEAR STRATEGY TO MARKET

2005	2006	2007/08
<ul style="list-style-type: none"> » Production of Phase III material » Pivotal Phase III clinical trials started » Distribution partnerships <ul style="list-style-type: none"> » Australia (CSL) » India, Nepal, Bhutan and Pakistan (Biological E) 	<ul style="list-style-type: none"> » Interim safety data » Orphan drug status in EU » Phase III clinical efficacy data » Distribution partnership for US & EU travelers' markets (Novartis) » Phase III safety data » Initiation of regulatory filing with FDA 	<ul style="list-style-type: none"> » Build up commercialization to military markets » Partnership for Japanese market » Clinical trials in endemic countries » Initiation of regulatory filing with EMEA » Regulatory approval in US » Market launch in US » Market launch in EU

>>

MARKETING AND DISTRIBUTION

In 2006, Intercell made significant progress in putting its global marketing and distribution process for this product in place. Novartis was selected as Intercell's worldwide marketing and distribution partner in the United States, Europe and certain other markets in Asia and Latin America. CSL Ltd. will be Intercell's distribution partner in Australia. Biological E is the designated distribution partner for India. Intercell intends to initially commercialize the vaccine on its own in the armed forces and military personnel market.

>>

ANTICIPATED MILESTONES 2007/2008

- >> EMEA filing
- >> Supply agreement with US Army
- >> Clinical trials in children in endemic countries
- >> Marketing and sales agreement for Japanese market
- >> Start of pediatric trials in AsiaMarket launch (early 2008)

>>

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- | | |
|---|--|
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»» NOSOCOMIAL INFECTIONS - PROGRESS IN VACCINE DEVELOPMENT

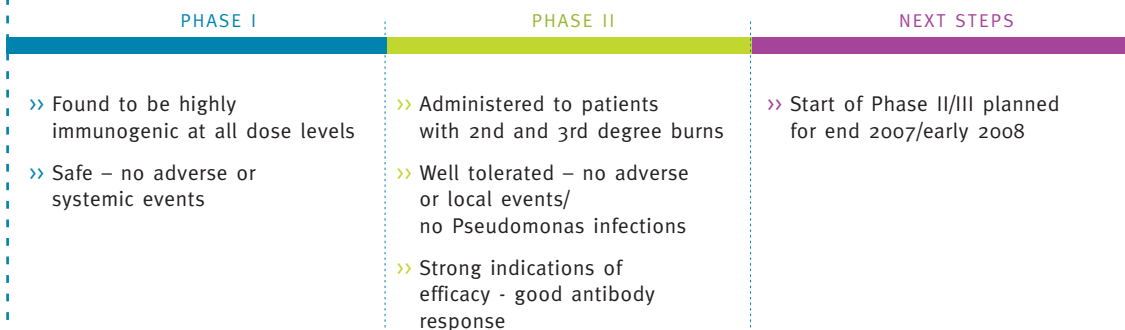
Nosocomial infections are bacterial or fungal infections which are acquired in a hospital setting and cause a variety of severe infections. There are an estimated 2 million infections every year and 100,000 annual deaths occur in the US alone leading to an annual cost burden of \$5-10 billion in the US.

»» BUILDING AN ATTRACTIVE VACCINE FRANCHISE

Through the acquisition of Pelias and important progress in its own and partnered programs (e.g. S.aureus vaccine partnered with Merck), Intercell focused on expanding its leading position as a technology provider and vaccine developer in the field of hospital-acquired infections:

- »» Acquisition of **Pelias** successfully completed in early 2007, strengthening Intercell's product portfolio by a clinical Phase II stage Pseudomonas vaccine candidate.
- »» **Pseudomonas vaccine** has shown promising data in completed Phase II trials. The vaccine, which was administered to 2nd and 3rd degree burn patients, was well tolerated; no adverse systemic or local events were observed. The vaccine showed indications of efficacy combined with a good antibody response. None of the patients developed Pseudomonas infections. The start of Phase II/III is planned for end 2007/early 2008.

»» PSEUDOMONAS VACCINE: CLINICAL DEVELOPMENT PATHWAY



- »» **S.aureus vaccine:** Phase I study is progressing with promising results. The recombinant subunit vaccine to prevent S.aureus infections is based on a single conserved protein antigen discovered by Intercell's Antigen Identification Program (AIP®) and licensed to Merck & Co., Inc. on an exclusive worldwide basis in 2004. The start of Phase II is expected in 2007.
- »» **Enterococcus/Klebsiella vaccines:** Antigen Identification has been accelerated for these targets in order to strengthen the most competitive franchise in the industry.

>>

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- [2] von Specht BU, Gabelsberger J, Knapp B, et al. Immunogenic efficacy of differently produced recombinant vaccines candidates against *Pseudomonas aeruginosa*
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>>

IC41 – HEPATITIS C VACCINE

HEPATITIS C

The Hepatitis C Virus (HCV) is a major cause of chronic liver disease, including cirrhosis and liver cancer. According to the World Health Organization (WHO), approximately 170 million people worldwide are chronic HCV carriers (3% of the world's population). In the developed world, about 10 million Europeans, 3.9 million Americans and 2 million Japanese are infected with HCV, and 35,000 new infections occur in the US alone each year. The high unmet medical need for treatment is supported by the fact that each year, 8,000 to 10,000 deaths and 1,000 liver transplantations are due to HCV in the United States.

Source: WHO, Weekly Epidemiologic Report, No. 3, 2000, 75; NIH Consensus Development Conference Statement, Management of Hepatitis C, June 2002; CDC: Fact Sheet Hepatitis C, www.cdc.gov.

Discovered just in the late 1980s, HCV belongs to the flaviviridae family. It is an enveloped RNA virus with a narrow host range. HCV is spread primarily through human blood.

>> CURRENT TREATMENT AND PREVENTION

Currently, there is no vaccine or immunotherapy against Hepatitis C and the infection can only be treated with a combination of Interferon and Ribavirin – a long-term therapy with limited efficacy and significant side effects. It gives rise to very high annual costs per patient.

>> **INTERCELL'S VACCINE**

>> CLINICAL DEVELOPMENT

With our therapeutic Hepatitis C vaccine we are pioneers in using T-cell induction to treat chronic viral infections. As animal infection models do not exist for Hepatitis C, the “proof of concept” for our treatment approach has to be generated in human clinical trials. Although we fully understand the associated scientific and medical risk, we believe that our work will lead to a valuable contribution to treat this important disease.

After completion of our first Phase II clinical study in 2004, the clinical development program has been extended. A follow-up study has been designed to further increase the T-cell response, which is the most critical part of the immune system in the fight against the infection, by optimizing the route and the frequency of vaccinations.

Results of this study, which was completed in Q1 2006, indicate that IC41, given in optimized route and schedule, is considerably more immunogenic than has been previously shown. 50 healthy adults were vaccinated with IC41 in alternative regimes. In order to increase T-cell response, which plays an essential role in the natural defense against the Hepatitis C Virus, various intervals, numbers and routes of vaccination were tested. In a previous IC41 Phase II trial (non-responders to Interferon therapy), the strongest T-cell responses were associated with a clinically meaningful decline of HCV-RNA.

The optimization study showed that the T-cell responses were stronger and significantly more frequent than seen up to now. This was true for both CD4- and CD8- positive T-cells. Compared to the previous regime, the improvements were substantial and met the success criteria for further development. The favorable safety profile and local tolerability seen in previous trials involving approximately 300 healthy volunteers and Hepatitis C-patients was maintained.

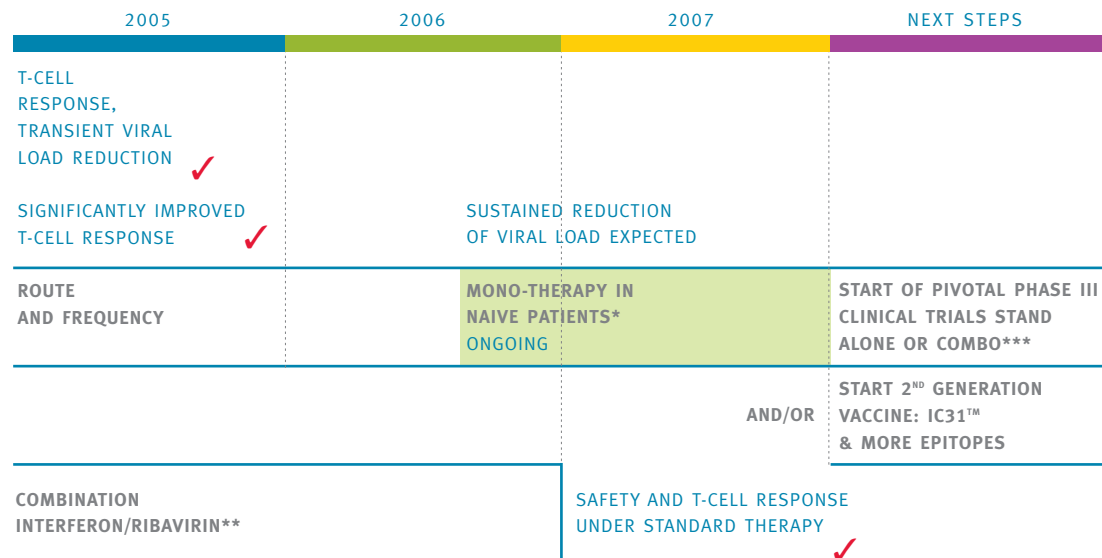
Based on the optimized route and frequency of administration, Intercell has started a Phase II – proof of concept – clinical trial in naive chronic Hepatitis C patients. **Success criteria** for this study, which is already fully recruited, include:

- >> Significant and sustained reductions of viral load correlating with T-cell response
- >> Forward strategies comprise options for mono- and/or combination therapies

First results of this Phase II study are expected in mid 2007.

Furthermore, Intercell has completed a Phase II clinical trial, testing its vaccine in combination with Interferon/Ribavirin standard therapy (PegINF-RBV). The study proved a good safety profile of the vaccine when used concomitantly with PegINF-RBV. Furthermore, the level of the critical T-cell response generated was similar to what had been seen in previous studies in which chronic patients or healthy subjects were vaccinated with the vaccine alone, indicating that there was no apparent interference of PegINF-RBV with vaccine immunogenicity.

>> IC41 DEVELOPMENT AND REGULATORY PATHWAY



* With optimized route and frequency; interim data by mid 2007
 ** Using "old" treatment schedule 6x in 6 months
 *** Mono-therapy or combination

>>

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>> PARTNERED AND FOLLOW-UP PRODUCT CANDIDATES**>> TUBERCULOSIS VACCINE**

In 2004, Intercell AG and the Danish Statens Serum Institut (SSI) entered into a collaboration in order to develop a novel Tuberculosis vaccine. The recombinant subunit vaccine candidate combines Intercell's proprietary synthetic adjuvant IC31™ with SSI's recombinant Tuberculosis antigens.

The vaccine has been extensively tested on different relevant animal models and has demonstrated efficient protection against the infection. In 2005, SSI started a Phase I clinical trial which was performed at the Department of Infectious Diseases at Leiden in the Netherlands and supported by the European Union-funded program "TB-VAC". In this Phase I trial, the new Tuberculosis vaccine demonstrated a promising level of immunogenicity and safety profile. The vaccine was safe and gave rise to strong IC31™ dependent immune responses. Based on these results, the start of Phase II clinical trials is planned for 2007.

Intercell's adjuvant IC31™ proved an outstanding and very similar profile to stimulate strong and long-lasting T-cell immune responses in humans as has already been previously seen in a variety of animal models. These results prove the scientific concept of Intercell's adjuvant and pave the way towards a broad and commercial use of IC31™ in a variety of prophylactic and therapeutic vaccines.

>> VACCINES DEVELOPED IN COLLABORATIONS

In addition to the vaccines developed in-house, selected product candidates and programs are offered to third parties for commercial collaborations and co-development partnerships.

Currently the Company is involved in the development of vaccines under the following partnerships:

- >> Strategic partnership with Merck&Co., Inc., for a vaccine against S.aureus based on an antigen identified by Intercell. The Phase I study is progressing with promising results.
- >> Strategic partnership with Merck&Co., Inc., to develop a prophylactic vaccine against Group A Streptococcus
- >> Cooperation and license agreement with the Statens Serum Institut to develop a Tuberculosis vaccine including Intercell's adjuvant IC31™ in Phase I
- >> License agreement with sanofi pasteur for a bacterial vaccine based on an antigen identified by Intercell

>>

PRECLINICAL PROGRAMS

Currently, Intercell's preclinical programs primarily focus on vaccines vaccine candidates against other infectious diseases, including a Streptococcus pneumoniae vaccine, a Group A Streptococcus vaccine, a Travelers' Diarrhea vaccine and a Group B Streptococcus vaccine.

In 2007 Intercell will especially focus on all activities necessary to start a Phase I clinical trial of its protein based Streptococcus pneumoniae vaccine in H1 2008.

Therapeutic antibodies are another potential application for the antigen platform, and Intercell is currently pursuing Streptococcus pneumoniae, Group A and B Streptococcus and S.aureus as targets.

Currently the company is engaged in the following strategic partnerships on therapeutic antibodies:

- >> Therapeutic antibody against severe Streptococcus pneumoniae infections with Kirin Brewery Co., Ltd.
- >> Therapeutic antibody against nosocomial S.aureus infections with Merck&Co.,Inc.
- >> Therapeutic antibody against Group A Streptococcus infections with Merck&Co.,Inc.

More detailed information on our partnered vaccine candidates and strategic alliances can be found in the following technology section.

get infected
with technology!

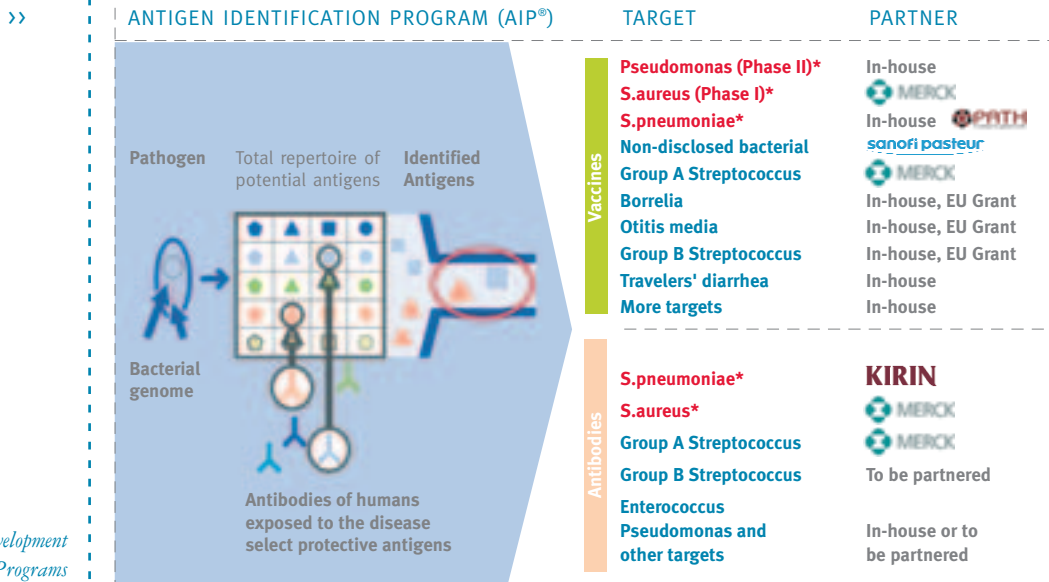


Virus formulae patentus

LEVERAGING TECHNOLOGIES. Proprietary technologies enable Intercell to discover potential vaccine antigens and to maintain a product pipeline which is developed in-house and used as a basis for future strategic partnerships. In delivering promising vaccine components, Intercell's state-of-the-art technologies have the ability to create important new vaccine candidates. Partnerships with key participants in the vaccine industry show the value and potential of our technologies for the development of novel vaccines. In creating value and new vaccine candidates, our technologies are important value drivers within our company.

>> *The list of diseases for which there are still no effective vaccines remains long. The appearance of new infectious diseases such as HIV as well as the persistence of more traditional diseases like Tuberculosis and Malaria has provided researchers with many new challenges. Intercell has taken these on. With the use of new technologies, a new generation of vaccines is being developed. The majority of Intercell's product candidates are derived from proprietary core technologies. These technologies are organized under the following two programs:*

>> **ANTIGEN IDENTIFICATION PROGRAM (AIP®)**
 Intercell's Antigen Identification Program® identifies novel antigens from a variety of pathogens. Intercell's team focuses on those antigens that are believed to induce the strongest response from the human immune system, thus providing a viable basis for our potential development of novel and more powerful prophylactic and therapeutic vaccines and antibody treatments. In 2006, Intercell continued to use these proprietary technologies to identify novel antigens on human pathogenic bacteria. Through the AIP®, a large number of novel antigens relating to a wide variety of infectious diseases have been successfully identified. In addition, certain product candidates identified are currently partnered with either sanofi pasteur, or Merck&Co., Inc., while others form the basis for development projects that are planned to be either developed in-house or partnered with third parties.



*Development Programs

>> VACCINE IMPROVEMENT PROGRAM (VIP)

Vaccine adjuvants enhance the effectiveness of vaccines. To achieve the desired level of acquired immunity against the pathogen, vaccines utilize adjuvants to increase the effectiveness of the purified protein or peptide antigens in stimulating the human immune system's response. The Intercell adjuvants address an unmet medical need for treatment because they induce antibodies and also T-cell immunity, and can be used together with peptide antigens. Existing adjuvants on the market induce antibodies but no or little T-cell immunity.

>> IC30

The first generation of Intercell's adjuvants is Poly-L-Arginine. Poly-L-Arginine is not immunogenic per se and allows a repeated vaccination without the risk of becoming ineffective due to neutralizing antibodies. Intercell's purely synthetic first-generation Hepatitis C vaccines (IC41) consist of Poly-L-Arginine and defined antigenic peptides. Thus IC30, or Poly-L-Arginine, is in clinical trials and data currently available demonstrate that it induces T-cells in humans.

>> IC31™

IC31™ is an adjuvant inducing T-cell and B-cell responses with a unique synthetic formulation which combines the immunostimulating properties of an anti-microbial peptide, KLK, and an immunostimulatory oligodeoxynucleotide, ODN1a. The two component solution can be simply mixed with antigens; no conjugation is required.

Intercell currently has IC31™ collaborations with a number of global vaccine companies, as well as small biotechs.

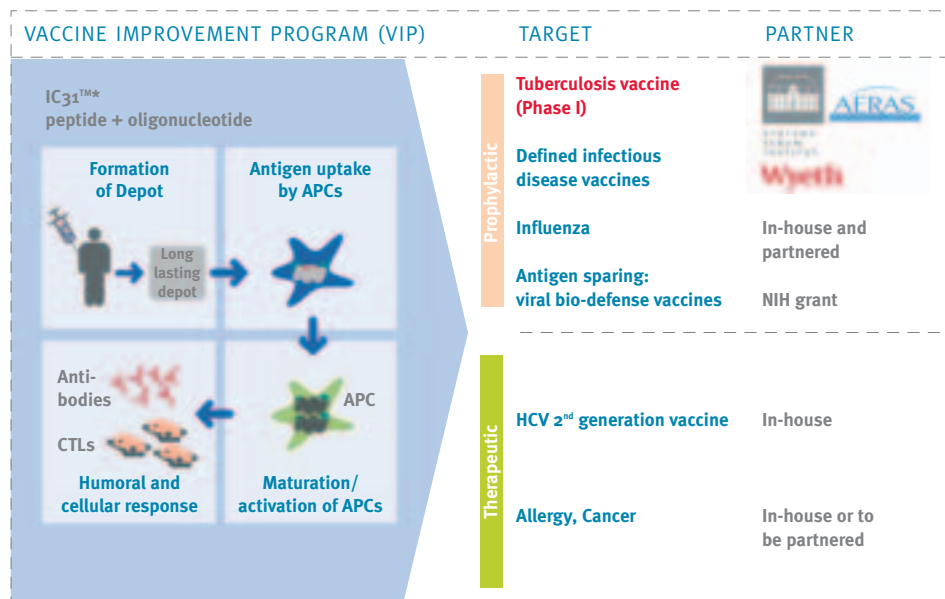
These collaborations include a Tuberculosis vaccine partnered with the Danish Statens Serum Institut which has successfully concluded Phase I clinical trials. In this clinical trial, IC31™ demonstrated an outstanding profile to stimulate a strong T-cell immune response in humans as already previously seen in a variety of animal models. These results prove the scientific concept of IC31™ and encourage broad and commercial use in a variety of prophylactic and therapeutic vaccines.

In 2006, Intercell entered a strategic alliance with Wyeth for the use of IC31™ in various vaccine projects.

>>

OVERVIEW OF IC31™

* Excellent adjuvant for different antigens including B-cell and T-cell responses



>>

USPs OF ADJUVANT IC31™

- >> Signal through Toll-like-receptors
- >> Induces, in addition to the B-cell, strong T-cell immunity
- >> Broadens protective spectrum for B-cell antigens (e.g. Flu)
- >> Allows vaccine development where cellular immunity is key (e.g. Tuberculosis, Chlamydia)
- >> Safe tox-profile
- >> GMP manufacturing in place
- >> Strong patent position

STRATEGIC APPLICATIONS FOR IC31™

- >> Flu vaccines
 - >> Pre-pandemic
 - >> Broadened protection for inter-pandemic
- >> Tuberculosis vaccine (as stand alone or in conjunction with existing or improved BCG vaccine)
- >> Novel T-cell vaccines
 - >> Novel vaccines where T-cell immunity is pivotal (e.g. Helicobacter, Chlamydia)
 - >> Therapeutic vaccines against chronic infectious diseases (e.g. HCV, HPV, HSV, CMV, EBV)
 - >> Therapeutic vaccines against Cancer, Allergy....

>> LEVERAGING TECHNOLOGIES – PARTNERSHIPS AND COLLABORATIONS

In addition to the vaccines developed in-house, selected product candidates and programs are offered to third parties for commercial collaborations and co-development partnerships. These strategic partnerships leverage the technologies and product candidates, usually pursuant to licensing arrangements. Currently, the Company is involved in the development of vaccines under the following partnerships:

>> MERCK&CO. INC. – VACCINE AND MONOCLONAL ANTIBODIES AGAINST S.AUREUS

The recombinant subunit vaccine to prevent S.aureus infections is based on a single conserved protein antigen discovered by Intercell's Antigen Identification Program (AIP®) and was licensed to Merck & Co., Inc. on an exclusive worldwide basis in 2004. The Phase I Study, which was commenced in 2005, is progressing with promising results. The start of Phase II is expected for 2007. Under the terms of the agreement, Intercell is eligible to receive additional milestone payments based on project progress as well as royalties based on future net sales. Merck is responsible for the development of a potential vaccine and antibody and owns the worldwide exclusive rights to these product candidates.

>> SANOFI PASTEUR - BACTERIAL VACCINE CANDIDATE

In July 2005, sanofi pasteur exercised its option on exclusive worldwide commercial rights on certain bacterial vaccine antigens, which have been identified by Intercell's Antigen Identification Program®. Over the entire term of the agreement, Intercell will be entitled to further milestone based license payments totaling approximately € 20 million, and royalties on future net sales.

>> STATENS SERUM INSTITUT (SSI) – TUBERCULOSIS VACCINE

The novel vaccine candidate is a recombinant subunit vaccine based on two important TB antigens resulting from SSI's research pipeline combined with Intercell's proprietary adjuvant IC31™. A Phase I clinical trial, which was performed at the Department of Infectious Diseases at Leiden University Medical Center in the Netherlands showed that the vaccine candidate is safe and very immunogenic in healthy individuals. Next clinical trials are expected to begin in 2007. Intercell and SSI have agreed on sharing profits from future vaccine sales.

>> KIRIN BREWERY CO., LTD – S.PNEUMONIE

Strategic alliance with Kirin Brewery Co. Ltd. (Tokyo, Japan) to develop human monoclonal antibodies against severe infections caused by Streptococcus pneumoniae. Under the agreement, Kirin obtains global rights to develop and commercialize antibodies directed against antigens that have been detected by Intercell's proprietary Antigen Identification Program (AIP®). Over the term of the agreement, Intercell is entitled to milestone payments totaling at approximately € 40 million and will receive significant royalties on future net sales of the product.

» **MERCK&CO. INC. – VACCINE AND MONOCLONAL ANTIBODIES AGAINST GROUP A STREPTOCOCCUS**
In 2006, Intercell entered an additional strategic alliance with Merck to develop a prophylactic vaccine and antibody treatments against Group A Streptococcus infections. The agreement is based on antigens that were discovered and validated by Intercell's proprietary bacterial Antigen Identification Program (AIP®) and included a \$ 9.5 million upfront payment, up to \$ 76 million milestone payments as well as royalties on future net sales of the product

» **WYETH - IC31™ IN VARIOUS VACCINE PROGRAMS**
In 2006, Intercell also closed a worldwide non-exclusive agreement with Wyeth for the use of Intercell's fully synthetic novel adjuvant IC31™ in various selected infectious disease vaccine programs. Under the agreement, Intercell may be entitled to receive up to \$ 77 million in upfront, option and milestone payments as well as royalties on product net sales.

» **PATH - PNEUMOCOCCUS VACCINE**
PATH, a US-based non-profit organization supports the development of Intercell's Streptococcus pneumoniae candidate vaccine with an initial funding of \$ 7.3 million through preclinical stage, with the potential for substantial additional funding during later development phases. Intercell and PATH are committed to working together toward the successful development of the vaccine in clinical trials leading to registration and market approval.

» **PATENTS — THE BACKBONE OF BIOTECH**

Intercell's commercial success depends heavily on its intellectual property. Therefore the company aims to provide adequate patent protection to its product candidates and processes, and have the freedom to operate its business without infringing third-party patent and proprietary rights.

Intercell protects and strengthens its key product candidates and technologies by means of aggressive patent filing and prosecution. The Company acts to preemptively protect all inventions made by scientists, and collaborative research of potential commercial value. To date, Intercell's patent portfolio includes about 40 active patent families, covering both product candidates and technologies. The Antigen Identification technology and products, including more than 900 antigens from different pathogens, are covered by more than ten patent families. The adjuvant technologies and products are covered by a number of patents and patent applications.

The other main effort involves in-depth due diligence analysis of the freedom-to-operate issues associated with all of the company's clinical developing products. Upon identifying any third party patent rights that may affect the development and operation, Intercell either proactively negotiates to acquire a license from the patent holder or instigate invalidation proceedings. This approach has led to the acquisition of a number of worldwide, exclusive licenses for the development and commercialization of the company's clinical product candidates IC41 and IC51.

get infected
with figures



Virus financialis communis

2006 FULL YEAR RESULTS

represent the turnaround of the previous trend of increasing annual losses. Revenues € 23.5 million, up 176.5 %, Net loss € 16.1 million, decrease of 35.9 % R&D expenses € 31.0 million – enabled to drive all programs forward Strong cash position with € 94.4 million

>> Dear Shareholder,

>> **BALANCE**

Large pharmaceutical companies and small biotechs know that research and development in the field of biologics is not risk free. Consequently risk management in a biotech company is a most important management tool. It has always been the philosophy of Intercell to combine cutting edge science with state of the art management in order to find the right balance between product innovation and conservative process execution. In following and consequently controlling these principles 2006 continued as another outstanding year for Intercell and its shareholders.

>> **BALANCE PRODUCTS**

Our novel technologies for vaccine antigens and adjuvants allowed us in the past to build up a very strong portfolio with projects that represent different categories of risks. It is for example clearly a more difficult task to develop the first therapeutic vaccine ever, compared to prophylactic vaccines in indications that are relatively well characterized. We think that we can deliver in both categories. Nevertheless, managing a portfolio of well protected down side risk, and generating high up side potential at the same time, is our commitment to our shareholders.

>> **BALANCE PARTNERSHIPS**

We have great partners who are fully committed to develop products based on our technologies. With our strategy to partner only with the prime players in a field we follow the principle that less complexity will often lead to more focus and more sustainable value. The historical success of Merck&Co., Novartis, Sanofi Pasteur, Wyeth, Kirin and others speak for themselves. The win - win situations with our partners will speed up the growth potential of Intercell within the next years.

>> **BALANCE PRIORITIES**

We are committed to building a sustainable, innovative and highly profitable company. Not surprisingly and given our strategic priorities, we are – at this stage – loss making. Our aggregate annual revenues increased from € 8.5 million in the year 2005 to € 23.5 million in the year 2006, or by 176.5 percent. This strong increase was due to higher revenues from collaborations and significant progress made in existing collaborations. R&D costs increased from € 28.5 million in 2005 to € 31.0 million in 2006, or by 8.8 percent, enabling to drive all programs forward at full speed, creating the maximum value out of the product and technology platforms. At year end, we had liquid funds of € 94.4 million. We have proven that we can create significant value over time, therefore finding the right balance between investing into innovation and generating revenues through our product candidates is a most important management objective at Intercell. We want to thank all investors and supporters of the company.

WERNER LANTHALER, CFO

>> COMMUNICATING WITH OUR SHAREHOLDERS:

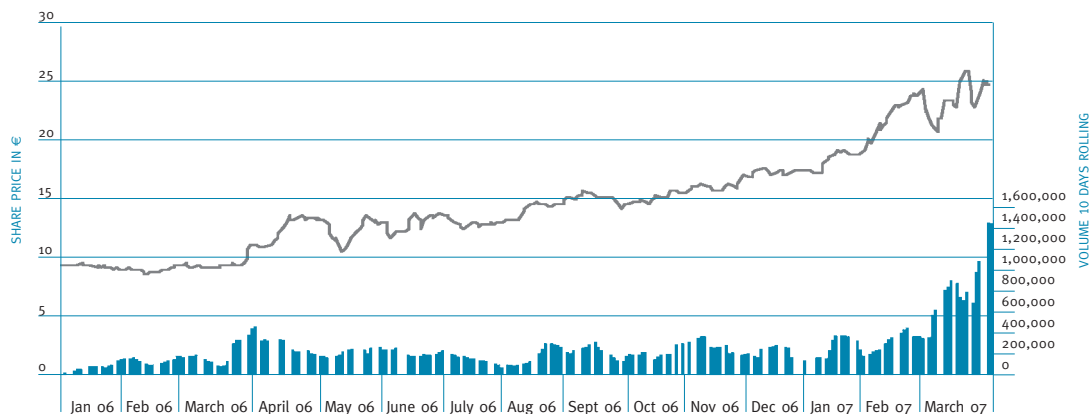
As a public company trading on the prime market (ATX) of the Vienna Stock Exchange (VSE, "ICLL"), we strongly believe in the importance of good communication and are committed to transparency. We aim at ensuring that all shareholders receive in-depth information about Intercell's activities and the latest developments in the company's technology, clinical results and financial performance so that the share price reflects the company's performance and opportunities. During the last years we regularly met with analysts and performed at various investor-based conferences. Advances in public access to information are of the greatest concern to Intercell. Our public announcements and press releases can be found on our webpage along with a financial calendar and a list of conferences.

We always welcome queries from our shareholders and seek to answer any we receive quickly and thoroughly. Please contact our Investor Relations Department by email to investors@intercell.com or by phone: +43-1-20620-222

>> SHAREHOLDER INFORMATION

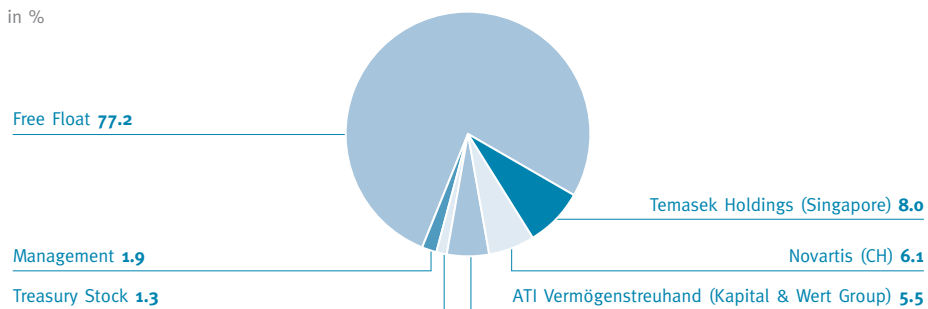
Exchange	Vienna Stock Exchange (VSE)
Tickersymbol	ICLL
	Reuters: ICEL.VI, Bloomberg: ICLL AV
Currency	Euro
Number of shares issued	39,881,712
ISIN	AT0000612601
Common Code	021250902

>> SHARE PRICE PERFORMANCE (1 JANUARY 2006 – 31 MARCH 2007)



>> SHAREHOLDER STRUCTURE (31 MARCH 2007)

in %



>> INSTITUTES AND ANALYSTS COVERING INTERCELL

Goldman Sachs	Stephen McGarry, Linden Townson
Merrill Lynch	Erica Whittaker, Brigitte de Lima
Lehman Brothers	Peter Welford, Philippa Gardner
Erste Bank der oesterreichischen Sparkassen AG	Günther Artner, Vladimira Urbankova
Sal. Oppenheim	Peter Düllmann
Bryan, Garnier & Co	Luke Poloniecki
Bank Vontobel	Markus Metzger, Claudio Werder

>> FINANCIAL CALENDAR

March 5, 2007	Preliminary results announcement for the year ended December 31, 2006
May 14, 2007	Q1 results for the three months ended March 31, 2007
June 15, 2007	Annual General Meeting
August 13, 2007	Q2 results for the three and six months ended June 30, 2007
November 19, 2007	Q3 results for the three and nine months ended September 30, 2007

>> SELECTED INVESTOR CONFERENCES

Intercell will be holding (held) presentations at the following investor and finance conferences:

JP Morgan Global Healthcare Conference	January 8 – January 11, 2007, San Francisco, USA
IXIS Vaccines Seminar	March 15, 2007, Paris, France
Lehman Brothers Biotechnology Forum	March 19, 2007 – March 21, 2007, Miami, USA
Deutsche Bank – 7th Annual Pan-European Small- & MidCap Conference	March 21, 2007 – March 23, 2007, London, UK
3rd Annual London Biotech Investment Forum	April 20, 2007, London, UK
BIO 2007 – BIO Business Forum	May 6, 2007 – May 9, 2007, Boston, USA
Merrill Lynch 4th Annual Medtech / Biotech Forum	May 15, 2007 – May 17, 2007, London, UK
BioEquity Europe	May 21, 2007 – May 22, 2007, Glasgow, UK
Sal. Oppenheim	
2nd European Healthcare Investors Conference	September 4, 2007 – September 5, 2007, Frankfurt, Germany
7th Annual Biotech in Europe Investor Forum	October 2, 2007 – October 3, 2007, Zurich, Switzerland

The members of the Supervisory Board and the Management Board of Intercell AG are committed to managing the Company's business operations transparently, according to high ethical standards and focused on long-term value creation. We believe that good corporate governance has been the basis for the trust that we gained from our investors, from institutions and from our employees in the past and that it will continue to strengthen investor confidence in the future.

»» **AUSTRIAN CODE OF CORPORATE GOVERNANCE**

In September 2004, the management and Supervisory Boards passed a declaration of compliance with the Austrian Code of Corporate Governance, which has been issued by the Austrian Working Committee for Corporate Governance in September 2002 and has been updated in January 2006, reflecting the corporate governance recommendations of the European Commission.

The Austrian Code of Corporate Governance recommends standards of good corporate management common in international business practice. The Code includes mandatory rules and requirements, some of which can be found under relevant Austrian law, a set of comply-or-explain rules which have to be followed unless the relevant rules and the reasons for non-compliance have been disclosed, and recommendations, for which non-compliance does not have to be disclosed and explained.

Intercell AG complies with the Austrian Code of Corporate Governance with the following explicit limitations:

- »» Due to the size of our company, a separate staff unit for internal auditing in accordance with Section 18 of the Code will not be established;
- »» Due to our limited exposure to market risks, we will not comply with Section 80 of the Code, which requires that our auditors perform a special audit on our risk management systems.

In some aspects the corporate governance principles of Intercell AG are even beyond the recommendations of the Code.

»» **ORGANISATION OF GOVERNING BODIES**

»» **MANAGEMENT BOARD**

As required by the Austrian Stock Corporation Act, we have a two-tier board system consisting of a Management Board and a Supervisory Board. The two boards are separate, and no individual may serve on both boards simultaneously.

Our Management Board is responsible for managing our day-to-day business and represents us in our dealings with third parties. The members of our Management Board are appointed for renewable terms of up to five years by our Supervisory Board. Our Management Board passes its resolutions by a simple majority of votes cast. In the event of a voting deadlock, the chairperson casts the deciding vote.

Currently, our Management Board consists of the following three members (for management biographies see “Corporate team”, page 14 and 15):

Name		Date of Birth	First appointment	End of term
Dr. Gerd Zettlmeissl	Chief Executive Officer	October 1, 1955	October 2001	September 2008
Dr. Alexander von Gabain	Chief Scientific Officer	April 12, 1950	January 1998	September 2008
Dr. Werner Lanthaler	Chief Financial Officer	September 2, 1968	September 2001	September 2008

>>

SUPERVISORY BOARD

Our Supervisory Board monitors and advises our Management Board and is responsible for the appointment and removal of members of our Management Board. Our Management Board must regularly report to our Supervisory Board on our business activities. In addition, it has to obtain prior approval from our Supervisory Board for certain types of transactions including any transactions of our company with members of our Management Board.

The members of our Supervisory Board are elected and may be revoked by the general meeting of shareholders.

Our Supervisory Board currently has six members. All our Supervisory Board members are independent according to the corporate governance rules. Unless otherwise provided by law, our Supervisory Board passes resolutions by a simple majority of votes cast, with the chairperson casting the deciding vote in case of a voting deadlock.

Our Supervisory Board has formed three committees:

- >> an audit committee, which has the responsibility of reviewing our annual financial statements in preparation for our Supervisory Board’s approval of our financial statements,
- >> a compensation-, nomination- and corporate governance committee, which is responsible for reviewing management performance, in particular with regard to our Management Board’s compensation, for successor planning and corporate governance issues.
- >> a strategy committee, which is set up as a “task force” for reviewing and preparing important strategic decisions together with our Management Board.

The following persons are members of our Supervisory Board (for biographies and other board memberships see “Corporate team”, page 16 and 17):

Name	Date of Birth	First election	End of term*	Member of Committee**
Michel Gréco (Chairman)	October 3, 1943	July 2003	2008	C, S
Dr. Ernst Afting (Vice-chairman)	August 9, 1942	February 1999	2008	C
Dr. David Ebsworth	July 24, 1954	November 2003	2008	A, C, S
James Sulat	July 22, 1950	September 2004	2008	A
Mustapha Leavenworth Bakali	November 30, 1961	May 2006	2008	A
Dr. Hans Wigzell	October 28, 1938	May 2006	2007	

* End of general meeting of shareholders in the respective year

** A... audit committee, C...Compensation-, Nomination- and Corporate Governance-committee, S... Strategy committee

>> GENERAL MEETING OF SHAREHOLDERS

Each shareholder has the right to attend any general meeting of shareholders, to ask questions and propose resolutions in connection with any matter on the agenda set out in the notice convening the meeting and to vote upon any resolution proposed, provided that the shareholder has duly deposited his or her shares with a designated depository institution. Each shareholder is entitled to one vote per share. Shareholders may be represented at any general meeting of shareholders by a holder of a written proxy. Our Management Board, Supervisory Board or any shareholder holding at least five percent of our nominal share capital may call a general meeting of shareholders. Shareholders holding at least five percent of our nominal share capital may also require items to be included in the agenda of the general meeting of shareholders. Notice of a general meeting of shareholders (including the meeting's agenda) is published in the Official Viennese Gazette and on the Company's website.

>> DIRECTOR COMPENSATION AND TRANSACTIONS WITH DIRECTORS

The remuneration for the members of our Management Board is stipulated in their respective employment contracts. The table below sets forth the total compensation paid or accrued for the fiscal year ended December 31, 2006:

in €, except number of share options	Salary	Bonus	Other benefits	Total	Share Options granted	
					number	Fair Value*
Dr. Gerd Zettlmeissl	260,000	403,000	25,870	688,870	100,000	475,188
Dr. Werner Lanthaler	250,000	395,000	29,115	674,115	100,000	475,188
Dr. Alexander von Gabain	250,000	395,000	32,603	677,603	100,000	475,188
				2,040,589	300,000	1,425,565

* fair value at grant date of options granted in 2006

The bonus is contingent on achievement of predefined financial and individual performance goals. The Company has no retirement plan for the Management Board, but the Company makes contributions to a pension insurance with a fixed amount of € 1,000 per month for each member of the Management. The Company has entered into a contractual arrangement with members of

the Management Board entitling them to a one-off payment under certain conditions in case their contracts are not renewed for reasons in the sole responsibility of the Company.

Share options, which have been granted to the members of the Management Board become exercisable in four equal portions after the Annual General Shareholders' Meeting in the second, third, fourth and fifth year after being granted (the vesting period). All options expire no later than five years after grant. Options are not transferable or negotiable and unvested options lapse without compensation upon termination of employment with the Company (cancellation).

The Company has no legal or constructive obligation to repurchase or settle the options in cash.

An interest-free loan has been granted by the Company to Dr. Alexander von Gabain, our Chief Scientific Officer, in the amount of € 247,000, which is due and payable upon termination of his employment with the Company. For further details on transactions with related parties see note 30 to the consolidated financial statements.

The remuneration of the members of our Supervisory Board is determined by resolution of the general meeting of shareholders. In addition, the members of our Supervisory Board are reimbursed for their out-of-pocket expenses. For the financial year 2006, we expect remuneration for the members of our Supervisory Board, which will be awarded by our annual general meeting of shareholders, to amount to € 30,000 for the Chairperson, € 25,000 for Vice-chairperson and € 20,000 each for all other members.

» STOCK OPTIONS AND DIRECTOR PARTICIPATION

The following table sets forth the number of stock options and shares privately held by members of our management and Supervisory Boards as of December 31, 2006. For details on our stock option plans see note 20 to our consolidated financial statements.

	Number of shares held	Number of options held	Total
Members of the Management Board			
Dr. Gerd Zettlmeissl	194,165	366,435	560,600
Dr. Werner Lanthaler	210,915	372,785	583,700
Dr. Alexander von Gabain	265,425	617,000	882,425
Members of the Supervisory Board			
Michael Gréco	-	25,000	25,000
Dr. Ernst Afting	20,630	20,000	40,630
Dr. David Ebsworth	13,410	17,500	30,910
James Sulat	-	20,000	20,000
Dr. Hans Albert Küpper (until Dec. 14, 2006)	-	5,000	5,000
Mustapha Leavenworth Bakali	-	10,000	10,000
Dr. Hans Wigzell	-	10,000	10,000

>> REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Intercell AG for the financial year from 1 January to 31 December 2006. These consolidated financial statements comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year ended 31 December 2006, and a summary of significant accounting policies and other explanatory notes.

>> MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

>> AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and in accordance with International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

>> OPINION

Our audit did not give rise to any objections. Based on the results of our audit in our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2006, and of its financial performance and its cash flows for the financial year from 1 January to 31 December 2006 in accordance with International Financial Reporting Standards as adopted by the EU.

» WITHOUT QUALIFYING OUR OPINION, WE DRAW ATTENTION TO THE FOLLOWING MATTER:
Note 2.1 in the consolidated financial statements indicates that the Company is exposed to special risks inherent in its business as a loss-making Biotech group which is not yet marketing any products and has accumulated losses amounting to TEUR 107,852. Management does not expect the Company to become profitable in the near future, but believes that the Company has sufficient resources to satisfy its liquidity requirements for more than the next 12 months. A material delay or failure of product development or commercialisation may, in the medium term, jeopardize the Company's ability to continue as a going concern.

» REPORT ON THE CONSOLIDATED MANAGEMENT REPORT
Laws and regulations applicable in Austria require us to perform audit procedures whether the consolidated management report is consistent with the consolidated financial statements and whether the other disclosures made in the consolidated management report do not give rise to misconception of the position of the group.

In our opinion, the consolidated management report for the group is consistent with the consolidated financial statements.

Vienna, 22 March 2007

PwC Wirtschaftsprüfungs AG
Wirtschaftsprüfungs- und
Steuerberatungsgesellschaft



ASLAN MILLA

AUSTRIAN CERTIFIED PUBLIC ACCOUNTANT

The consolidated financial statements of Intercell AG for the fiscal year from 1 January 2006 to 31 December 2006, the management report and the audit opinion thereon have been issued in German language in accordance with section 245a and 193 of the Austrian Commercial Code. We draw attention to the fact that this translation into English is presented for convenience purposes only and that the German wording is the only legally binding version.

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//I// Consolidated income statement

	Note	Year ended 31 December	
		2006	2005
€ in thousands			
>> Revenues		23,452	8,469
Revenues from collaborations and licensing		21,549	6,345
Grant income		1,903	2,124
>> Operating Expenses		(39,084)	(33,334)
Research and development expenses		(30,952)	(28,460)
General, selling and administrative expenses		(10,510)	(8,957)
Income from transactions with associated companies		951	1,033
Other income/(expenses), net	7	1,427	3,050
>> Operating loss		(15,632)	(24,865)
Finance income	9	1,469	1,260
Finance expenses	9	(128)	(195)
Share of loss of associated companies	14	(1,437)	(1,540)
>> Loss before income tax		(15,728)	(25,340)
Income tax (expense)/income	10	(415)	280
>> Loss for the year		(16,143)	(25,060)
>> Losses per share			
for profit attributable to the equity holders of the Company during the year (expressed in € per share)			
- basic and diluted	11	(0.45)	(0.79)

//II// Consolidated balance sheet

	€ in thousands	Note	At 31 December	
			2006	2005
>>	ASSETS			
>>	Non-current assets		11,439	7,809
	Property, plant and equipment	12	10,253	7,179
	Intangible assets	13	157	108
	Deferred tax assets	10	283	283
	Other non-current assets	16	746	239
>>	Current assets		100,024	56,986
	Trade receivables and other current assets	16	5,413	6,442
	Available-for-sale financial assets	15	65,523	44,894
	Restricted cash	18	190	366
	Cash and cash equivalents	17	28,898	5,284
>>	TOTAL ASSETS		111,463	64,795
>>	EQUITY			
>>	Capital and reserves attributable to the Company's equity holders		93,082	49,653
	Share capital	19	200,266	141,099
	Other reserves	21	668	263
	Retained losses		(107,852)	(91,709)
>>	LIABILITIES			
>>	Non-current liabilities		2,399	2,870
	Borrowings	25	2,157	2,870
	Other long term liabilities		242	0
>>	Current liabilities		15,982	12,272
	Trade and other payables	23	10,363	10,456
	Borrowings	25	998	1,337
	Deferred income	24	4,621	479
>>	Total liabilities		18,381	15,142
>>	TOTAL EQUITY AND LIABILITIES		111,463	64,795

//III// Consolidated cash flow statement

	€ in thousands	Note	Year ended 31 December	
			2006	2005
>>	Cash flows from operating activities			
	Loss for the period		(16,143)	(25,060)
	Depreciation and amortization	12/13	1,023	990
	Share-based compensation	20	1,646	1,421
	Tax	10	415	(280)
	Other adjustments for reconciliation to cash used in operations		1,508	826
	Changes in working capital	26	4,158	(1,770)
>>	Cash used in operations	26	(7,393)	(23,873)
	Interest paid		(174)	(147)
	Income tax paid		(412)	(3)
>>	Net cash used in operating activities		(7,979)	(24,023)
>>	Cash flows from investing activities			
	Purchases of property, plant and equipment	12/26	(3,846)	(1,865)
	Purchases of intangible assets	13	(108)	(2)
	Proceeds from sale (purchases) of available-for-sale financial assets	15	(19,778)	(21,545)
	Investments in associated companies	14	(1,450)	(1,040)
	Interest received		383	688
>>	Net cash generated from (used in) investing activities		(24,799)	(23,764)
>>	Cash flows from financing activities			
	Proceeds from issuance of ordinary shares	19	57,497	46,518
	Disposal of treasury shares	19	24	38
	Proceeds from borrowings	25	285	0
	Repayment of borrowings	25	(1,290)	(1,685)
>>	Net cash generated from financing activities		56,516	44,871
>>	Net increase/(decrease) in cash		23,738	(2,916)
	Cash at beginning of the year		5,284	8,167
	Exchange gains/losses on cash		(125)	33
>>	Cash at end of the year	17	28,898	5,284
>>	Cash, short-term deposits and marketable securities at end of period		94,421	50,178

//IV// Consolidated statement of changes in equity

	€ in thousands	Share capital	Other reserves	Retained earnings	Total equity
>>	Balance at 1 January 2005	93,122	294	(66,649)	26,767
	Fair value losses on available-for-sale financial assets	-	(64)	-	(64)
	Currency translation differences	-	33	-	33
	Net income (loss) recognized directly in equity	-	(31)	-	(31)
	Loss for the year	-	-	(25,060)	(25,060)
	Total recognized income/(expense) for 2005	-	(31)	(25,060)	(25,091)
	Employee share option plan:				
	- value of employee services	1,395	-	-	1,395
	- proceeds from shares issued	202	-	-	202
	- treasury stock re-issued	25	-	-	25
	Issuance of common stock, 28 February 2005 (IPO)	46,750	-	-	46,750
	Issuance of common stock, 18 March 2005 (IPO greenshoe)	5,441	-	-	5,441
	Treasury stock re-issued, 29 April 2005	38	-	-	38
	Cost of equity transactions	(5,874)	-	-	(5,874)
		47,977	-	-	47,977
>>	Balance at 31 December 2005	141,099	263	(91,709)	49,653
>>	Balance at 1 January 2006	141,099	263	(91,709)	49,653
	Fair value gains from available-for-sale financial assets	-	376	-	376
	Currency translation differences	-	30	-	30
	Net income recognized directly in equity	-	406	-	406
	Loss for the year	-	-	(16,143)	(16,143)
	Total recognized income/(expense) for 2006	-	406	(16,143)	(15,737)
	Employee share option plan:				
	- value of employee services	1,646	-	-	1,646
	- proceeds from shares issued	1,521	-	-	1,521
	- treasury stock re-issued	12	-	-	12
	Issuance of common stock	59,123	-	-	59,123
	Cost of equity transactions	(3,135)	-	-	(3,135)
		59,167	-	-	59,167
>>	Balance at 31 December 2006	200,266	668	(107,852)	(93,082)

» 1. GENERAL INFORMATION

Intercell AG (the "Company") is a biotechnology company focused on developing, manufacturing and commercializing prophylactic and therapeutic vaccines against infectious diseases. In addition, the Company commercializes its discoveries, which result from its proprietary research and development programs and technologies. The Company has two product candidates in an advanced clinical stage, a prophylactic vaccine against the Japanese Encephalitis virus and a therapeutic vaccine against the Hepatitis C virus. Two product candidates, a vaccine against Tuberculosis and a vaccine against Staphylococcus aureus infections, both based on proprietary technologies developed by the Company, are currently undergoing first clinical trials, conducted by licensing partners of the Company. The Company's core technologies utilize innovative processes to identify antigens that are recognized by the human immune system. In addition, the Company develops proprietary adjuvants that stimulate the human immune system's response to an antigen and enhance its ability to fight and destroy the associated pathogen. Related business activities include product research and development, regulatory and clinical activities, manufacturing of advanced clinical product candidates as well as administrative, corporate development and marketing activities.

Intercell AG is a stock corporation (Aktiengesellschaft) under Austrian law. The Company has its headoffice in Vienna, and holds interests in the following subsidiaries:

Name	Country of incorporation	Interest held at December 31	
		2006	2005
Intercell Biomedical Ltd.	UK	100 %	100 %
Intercell USA, Inc.	USA	100 %	100 %

Intercell Biomedical Ltd., Livingston, Scotland, operates a multi-purpose biologics manufacturing facility used for production of the Company's Japanese Encephalitis vaccine and Intercell USA, Inc., Mooresville, North Carolina, is primarily engaged in business development activities for the Company's products and technologies in the United States.

These consolidated financial statements have been authorized for issue by the Management Board on the day of signature. The individual financial statements of the parent company, which are part of the consolidated financial statements after conversion into the applicable accounting standards, will be reviewed and adopted by the Supervisory Board. The Supervisory Board and, in the event of submission to the Annual General Meeting, the shareholders are allowed to change the individual financial statements. This would affect the presentation of the consolidated financial statements.

»» 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented.

»» 2.1. BASIS OF PRESENTATION

These 2006 consolidated financial statements have been prepared under sec. 245a of the Austrian Commercial Code (HGB) in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The accounting policies applied by the Company under IFRSs as adopted by the European Union do not depart from full IFRSs as issued by the IASB.

These consolidated financial statements have been prepared using the historical cost convention, as modified by the fair value valuation of available-for-sale financial assets.

The Company is exposed to special risks inherent in its business as a loss-making biotechnology company. It is not yet marketing any products and has accumulated losses amounting to € 107,852 thousand as per 31 December 2006. The Management does not expect the Company to become profitable in the near future. Its long-term success may require further capital or successful commercialization of proprietary technologies. In order to secure funding for the Company's research and development programs, the Company may need additional funding. The Management believes that the Company has sufficient resources to meet its liquidity requirements for more than the next twelve months and that successful progress in its product development projects provides the Company with access to additional capital.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Management to exercise its judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

For ease of presentation, numbers have been rounded and, where indicated, are presented in thousand euros. However, calculations are based on exact figures. Therefore, the sum of the numbers in a column of a table may not conform to the total figure given for the column.

>> 2.2. CONSOLIDATION

>> A) SUBSIDIARIES

Subsidiaries are those entities over which the Company has the power to govern the financial and operating policies. Control usually exists in situations where the Company has more than 50 % of the voting rights. Subsidiaries are fully consolidated from the date on which the Company obtains such control. They are de-consolidated from the date that such control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed on the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially on their fair values on the acquisition date. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated.

>> B) ASSOCIATES

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20 % and 50 % of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost.

The Company's share of its associates' post-acquisition profits or losses (net of tax) is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

>> 2.3. SEGMENT REPORTING

The Company operates in a single business segment and in a single geographical segment.

>> 2.4. FOREIGN CURRENCY TRANSLATION

>> A) FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency.

>> B) TRANSACTIONS AND BALANCES

Foreign currency transactions are converted into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

>> C) GROUP COMPANIES

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are converted into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are converted on the rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are converted at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are converted on the dates of the transactions); and
- (iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the conversion of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity.

»» 2.5. REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable in the course of the Company's ordinary activities for the grant of licenses or commercialization rights and for services performed in collaboration with or on behalf of licensees or partners as well as grants from governmental and non-governmental organizations designated to remunerate approved scientific research activities. Revenue is shown net of value-added tax, rebates and discounts and after eliminating sales within the Company. Revenue is recognized as follows:

»» A) REVENUES FROM COLLABORATIONS AND LICENSING

The Company generates revenues from collaboration and license agreements for its product candidates and proprietary technologies. The terms of such agreements include license fees payable as initial fees, annual license maintenance fees and fees to be paid upon achievement of milestones as well as license option fees and fees for the performance of research services. In addition, the Company's collaboration and licensing arrangements generally provide for royalties payable on the licensee's future sales of products developed within the scope of the license agreement.

Under certain arrangements, the Company assumes multiple performance obligations, such as grant of licenses and commercialization rights, supply of products or materials and performance of research services. If the fair value of the components of such arrangements can be reliably determined, then revenue is recorded separately for each component. If it is not possible to determine the fair value of each element of an arrangement and no specific element is much more significant than any other element, then revenue is recognized on a straight line basis over the life of the agreement.

The Company recognizes initial fees for grant of licenses under non-cancelable contracts, which permit the licensee to freely exploit the licensed intellectual property rights, when such rights are assigned and associated know-how is delivered. Additional non-refundable license-fees to be paid upon the achievement of certain milestones are recognized as revenue when such a milestone is achieved.

Under certain arrangements, the Company receives non-refundable upfront fees for the grant of license options, which allow the licensee to obtain, upon execution of the option, a license for specific intellectual property rights on pre-defined terms and conditions. Such option premiums are deferred and amortized over the option period and the arrangement is not considered to give rise to a financial asset or liability.

Fees received for the performance of research services are recognized as revenue, when the service is rendered and the collectibility of the receivable is deemed probable. Upfront payments received for future performance of research services are deferred and recognized when the research is performed.

>>

B) GRANT INCOME

Grants from governmental agencies and non-governmental organizations are recognized at their fair value where there is reasonable assurance that the grant will be received and the Company will comply with all conditions.

Grant monies received as reimbursement of approved research and development expenses are recognized as revenue when the respective expenses have been incurred and there is reasonable assurance that funds will be received. Advance payments received under such grants are deferred and recognized when these conditions have been met.

Government grant monies received to support the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight line basis over the expected lives of the related assets.

>>

2.6. RESEARCH AND DEVELOPMENT

Research expenses are recognized as expenses as incurred. Development expenses incurred on clinical projects (relating to the design and testing of new or improved products) are recognized as intangible asset when the following criteria are fulfilled:

- (a) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (b) management intends to complete the intangible asset and use or sell it;
- (c) there is an ability to use or sell the intangible asset;
- (d) it can be demonstrated how the intangible asset will generate probable future economic benefits;
- (e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- (f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

Development assets are tested for impairment annually, in accordance with IAS 36.

>> **2.7. LEASES**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement.

>> **2.8. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment comprises mainly a manufacturing facility and leasehold improvements in rented office and laboratory space. All property, plants and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation of assets is calculated using the straight-line method to allocate their cost amounts to their residual values over their estimated useful lives, as follows:

Buildings, leasehold improvements	10-20	years
Machinery, laboratory equipment	2-15	years
Furniture, fittings and office equipment	4-10	years
Hardware	3-4	years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These gains and losses are included in the income statement.

>> 2.9. INTANGIBLE ASSETS

>> A) SOFTWARE

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives, generally three to five years.

Costs associated with developing or maintaining computer software programs are recognized as expenses as incurred.

>> B) PRODUCTION TECHNOLOGY

Acquired production technology represents the operational processes and standards regarding the production of biologics as well as quality control and quality assurance procedures according to Good Manufacturing Practices (GMP) standards. Production technology is amortized over its estimated useful life, generally five years.

>> 2.10. IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

>> 2.11. FINANCIAL ASSETS

The Company classifies its financial assets into the following categories: a) loans and receivables and b) available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired.

>> A) LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except those with maturities beyond 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade and other receivables" in the balance sheet (Note 2.12).

Loans and receivables are carried at amortized cost using the effective interest method. Impairment testing of trade receivables is described in Note 2.12.

» B) AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are non-derivatives. Assets in this category are classified as current assets if they are expected to be realized within 12 months of the balance sheet date.

Purchases and sales of financial assets are recognized on the trade date - the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs and available-for-sale financial assets are subsequently carried at fair value. Financial assets are derecognized when such financial asset has been transferred or substantially all risks and rewards of ownership have been transferred or when the rights to receive cash flows from such financial asset has expired.

Changes in the fair value of financial assets categorized as available-for-sale are recognized in equity. When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as "realized fair value gains or losses". The fair value of shares in an investment fund is determined by the daily redemption price at which such shares can be sold, as quoted by the fund on a daily basis is based on the fund's net asset value.

The Company assesses on each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity securities classified as available-for-sale, a decline in fair value below acquisition cost is considered as an indicator that the securities are impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

» 2.12. TRADE RECEIVABLES AND OTHER ASSETS

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

>> **2.13. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash in hand, deposits held at call with banks and time deposits.

>> **2.14. SHARE CAPITAL**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, if any, from the proceeds.

When the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly-attributable incremental costs (net of income taxes, if any) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or otherwise disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and related income tax effects, is included in equity attributable to the Company's equity holders.

Share capital also comprises the equity component of compound financial instruments (Note 2.15).

>> **2.15. COMPOUND FINANCIAL INSTRUMENTS**

For financial instruments that create a financial liability and grant an option to the holder to convert it into a fixed number of equity shares of the Company, the liability and equity components are recognized separately.

>> **2.16. BORROWINGS**

Borrowings are recognized initially at fair value if determinable, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings also include the liability component of compound financial instruments (Note 2.15).

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

>> 2.17. DEFERRED INCOME TAX

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit/loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

>> 2.18. EMPLOYEE BENEFITS**>> A) SHARE-BASED COMPENSATION**

The Company operates an equity-settled, share-based compensation plan. The fair value of such share-based compensation is recognized as an expense for the employee services received in exchange for the grant of the options. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

>> B) BONUS PLANS

The Company recognizes a liability and an expense for bonuses. The Company recognizes a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

>> 2.19. STANDARDS AND INTERPRETATIONS IN FORCE

Amendments to published standards effective in 2006

IAS 19 (Amendment), Employee Benefits, is mandatory for the Group's accounting periods beginning on or after 1 January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of disclosures presented in the accounts.

>> 2.20. STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE IN 2006 BUT NOT RELEVANT

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

IAS 21 (Amendment), Net Investment in a Foreign Operation;

IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;

IAS 39 (Amendment), The Fair Value Option;

IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;

IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards

and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;

IFRS 6, Exploration for and Evaluation of Mineral Resources;

IFRIC 4, Determining whether an Arrangement contains a Lease; and

IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;

IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

» 2.21. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS
THAT ARE NOT YET EFFECTIVE

The following new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2007 or later periods but which the Company has not early adopted:

- » IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007)
IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Company assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Company will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.
- » IFRS 8, Operating Segments (effective from 1 January 2009)
International Financial Reporting Standard 8 Operating Segments sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. An entity shall apply this standard in its annual financial statements for periods beginning on or after 1 January 2009.
- » IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006)
IFRIC 10 prohibits the impairment losses recognized in an interim periods on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Group's accounts.

»» 2.22. INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND NOT RELEVANT FOR THE GROUP'S OPERATIONS

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant to the Group's operations:

- »» IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006)
IFRIC 8 requires consideration received is less than fair value of the equity instruments issued- to establish whether or not they fall within the scope of IFRS 2. The Group will apply IFRIC 8 from 1 January 2007, but it is not expected to have any impact on the Group's accounts; and
- »» IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006)
IFRIC 7 provides guidance on how to apply the requirement of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to Group's operations; and
- »» IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006)
IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, IFRIC 9 is not relevant to the Group's operations.

>> **3. FINANCIAL RISK MANAGEMENT**

>> **3.1. FINANCIAL RISK FACTORS**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest-rate risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

>> **A) MARKET RISK**

>> **Foreign exchange risk**

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the UK pound. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

To date, this exposure has not resulted in any significant exchange rate gains or losses. Accordingly, the Company does not hedge its currency exposure.

>> **Price risk**

The Company is exposed to debt securities price risk because of investments held by the Company and classified on the consolidated balance sheet as available-for-sale. The Company is not exposed to commodity price risk.

>> **B) CREDIT RISK**

The Company is exposed to concentrations of credit risk. The Company holds bank accounts, cash balances and securities at high-credit-quality financial institutions. To monitor the credit quality of its counterparts, the Company relies on credit ratings as published by specialized rating agencies such as Standard & Poor's, Moody's and Fitch. The Company has policies that limit the amount of credit exposure to any single financial institution. The Company is also exposed to credit risk from its trade debtors as its collaborations and licensing income arose from a small number of transactions. The Company has policies in place to enter into such transactions only with highly reputed, financially sound counterparts.

>> **C) LIQUIDITY RISK**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the ability to close out market positions. To manage liquidity risk, the Company only invests in securities that can be converted into cash promptly.

>> D) CASH FLOW AND FAIR VALUE INTEREST RATE RISK

The Company is exposed to cash flow interest rate risk from its investments in interest-bearing non-derivative assets and borrowings subject to variable interest rates. The Company has policies in place to limit the potential impact on income and operating cash flows arising from changes in interest rates. As of 31 December 2006, available-for-sale financial assets comprise investment funds, which mainly invest in short-term deposits, short-term debt securities, asset backed securities and other money market instruments.

>> 3.2. ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company has no derivative financial instruments and does not engage in any hedging activities.

>> 3.3. FAIR VALUE ESTIMATION

The carrying amounts for accounts receivable and accounts payable are assumed to approximate their fair value due to the relatively short maturity of the respective instruments. The fair value of available-for-sale financial assets (investment funds) which are all quoted on a daily basis is based on current bid rates offered by the investment fund manager, based on the current market price of the fund's assets on the balance sheet date.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

Available-for-sale equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

>> 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

>> 4.1. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Management makes estimates and assumptions concerning the future.

The resulting accounting estimates may, by definition, differ from the related actual results.

>> SHARE-BASED PAYMENTS

The fair value of share options granted to the Company's management and employees is determined by using valuation techniques. As there had been no public market for the Company's equity

securities until February 2005, management's judgment as to the fair value was required and a number of estimates in applying such valuation techniques for the accounting periods before this date, which are described in more detail in Note 20, had to be made.

>> 4.2. CRITICAL JUDGMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

>> REVENUE RECOGNITION

The Company generates revenues principally from collaboration and license agreements for its product candidates and proprietary technologies. Such agreements usually provide for multiple performance obligations and multiple fee components. The Management's judgment is required to determine whether such different elements of an agreement are, from the partner's perspective, viewed as one transaction or as separately identifiable components, and, where revenue recognition criteria are applied separately to multiple components of an agreement, to determine the fair value of each component of an arrangement.

>> 5. EXPENSES BY NATURE

Research and development expenses and general, selling and administrative expenses include the following items by nature of cost:

€ in thousands	Year ended 31 December	
	2006	2005
Employee benefit expense (Note 6)	14,906	11,460
Consulting & other purchased services	17,515	17,456
Raw materials and consumables used	2,415	2,592
Building and energy	2,186	1,990
Travel and transportation	1,223	1,019
Depreciation and amortization (Notes 12 and 13)	1,025	990
Office and IT costs	635	470
License fees	904	1,176
Advertising costs	239	69
Other expenses	414	195
Total research and development expenses and general, selling and administrative expenses	41,462	37,417

Operating leasing expenses incurred by the Company amounted to € 940 thousand (2005: € 939 thousand) and are included in building and energy and employee benefit expense, as far as employee habitation is concerned.

»» 6. EMPLOYEE BENEFIT EXPENSE

Employee benefit expenses include the following:

€ in thousands	Year ended 31 December	
	2006	2005
Salaries	9,224	7,741
Social security contributions	2,760	1,589
Training and education	366	319
Share compensation expense	2,196	1,421
Other employee benefits	360	390
	14,906	11,460

During the year 2006, an average of 165 white-collar workers and 4 blue-collar workers have been employed (2005: 141 white-collar and 3 blue-collar workers).

»» 7. OTHER INCOME/(EXPENSES), NET

Other income, net of other expenses, includes the following:

€ in thousands	Year ended 31 December	
	2006	2005
Foreign exchange gain/(loss)	(169)	191
Taxes, duties, fees, charges, other than income tax	(187)	(172)
R&D tax credit	1,650	3,003
Miscellaneous income/(expenses), net	133	28
	1,427	3,050

R&D tax credit is an Austrian tax premium of 8 % on research and development expenses, which is credited to a company's tax account and may be paid out in cash. In 2005, following changes in Austrian tax law, the Company decided to elect the R&D tax credit for the first time.

Income of € 1,650 thousand from such credit was included in other operating income in the year 2006 (2005: € 3,003 thousand).

»» 8. INCOME FROM TRANSACTIONS WITH ASSOCIATES

Income from transactions with associates includes income from sale of research and development assets related to out-licensed product candidates and income from services provided to associates.

» 9. FINANCE INCOME/(EXPENSES)

€ in thousands	Year ended 31 December	
	2006	2005
Interest income		
Interest income from bank deposits	603	342
Interest income on available for sale financial assets	679	688
Realized gains from sale of available-for-sale financial assets	187	230
	1,469	1,260
Interest expense		
Interest expense to banks and government agencies	(128)	(195)
Total finance income/(expenses)	1,341	1,065

The company benefits from government assistance through arranging borrowing facilities that would have otherwise not been available to the Company. This assistance includes guarantees for the amount outstanding and interest subsidies.

Interest expense is presented net of such interest subsidies. Interest subsidies amounted to € 19 thousand in 2006 (2005: € 40 thousand).

Interest subsidies 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.

» 10. INCOME TAXES

» 10.1. INCOME TAX (EXPENSE)/INCOME

Income tax (expense)/income comprises current and deferred tax.

€ in thousands	Year ended 31 December	
	2006	2005
Current tax	(409)	(5)
Deferred tax	(6)	285
	(415)	280

The individual entities' reconciliations – prepared on the basis of the tax rates applicable in each country and taking into account consolidation procedures – have been summarized in the reconciliation below. The estimated tax charge is reconciled to the effective tax charge disclosed.

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

€ in thousands	Year ended 31 December	
	2006	2005
Loss before tax	(15,728)	(25,340)
Tax calculated at domestic tax rates applicable to profits in the respective countries	3,905	6,270
Income not subject to tax	1,448	988
Expenses not deductible for tax purposes	(465)	(372)
Deferred tax asset not recognized	(4,842)	(7,064)
Utilization of previously unrecognized tax losses	(60)	119
Recognition of tax asset previously not recognized	0	329
Tax losses of which no deferred income tax asset was recognized	2	0
Exchange differences	1	14
Minimum corporate income tax	(4)	(4)
Withholding tax	(400)	0
Tax (expense)/income	(415)	280

>>

10.2. DEFERRED TAX ASSET

The deferred tax assets and liabilities are allocable to the various balance sheet items as follows:

€ in thousands	At 31 December	
	2006	2005
Deferred tax asset from		
Tax losses carried forward	1,000	64
Valuation of associates	88	957
Other items	59	57
Total deferred tax assets	1,147	1,078
Deferred tax liability from		
Valuation of financial assets	(65)	(47)
Accelerated tax depreciation	(762)	(711)
Intangible assets	(14)	(21)
Other items	(23)	(16)
Total deferred tax liability	(864)	(795)
Deferred tax, net	283	283

The tax losses carried forward of € 97,368 thousand are not recognized as it is not probable that future taxable profits will be available against the unused tax losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The offset amounts are as follows:

€ in thousands	Year ended 31 December	
	2006	2005
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	59	26
– Deferred tax asset to be recovered within 12 months	1,000	989
	1,059	1,015
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	(776)	(725)
– Deferred tax liability to be recovered within 12 months	0	(7)
	(776)	(732)
	283	283

The resulting deferred tax assets were only recognized for entities where sufficient evidence has been provided that sufficient taxable profit will be available against which the unused tax losses can be utilized in the foreseeable future.

There is no expiration date of tax losses carried forward.

>> 11. LOSSES PER SHARE

Basic losses per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares outstanding during the year, excluding shares purchased by the Company and held as treasury shares (Note 19).

	Year ended 31 December	
	2006	2005
Net loss attributable to equity holders of the Company (€ in thousands)	(16,143)	(25,060)
Basic and diluted losses per share (€ per share)	(0.45)	(0.79)
Weighted average number of shares outstanding	36,091,023	31,610,869

Diluted losses per share equal basic losses per share because the conversion of all potentially dilutive shares (outstanding share options, Note 20) would result in a decrease in the loss per share and is therefore not to be treated as dilutive.

» 12. PROPERTY, PLANT AND EQUIPMENT

€ in thousands	Buildings and leasehold improvements	Manufacturing and laboratory equipment	Computer Hardware	Furniture fittings and other	Assets in course of construction	Total
Year ended 31 December 2005						
Opening net book value	2,301	3,183	201	233	0	5,918
Exchange rate differences	49	47	2	1	0	99
Additions	0	561	43	19	1,484	2,107
Disposals	0	(2)	0	0	0	(2)
Depreciation charge	(208)	(587)	(105)	(43)	0	(943)
Closing net book value	2,142	3,202	141	210	1,484	7,179
At 31 December 2005						
Cost	2,986	5,531	542	394	1,484	10,937
Accumulated depreciation	(844)	(2,329)	(401)	(184)	0	(3,758)
Net book value	2,142	3,202	141	210	1,484	7,179
Year ended 31 December 2006						
Opening net book value	2,142	3,202	141	210	1,484	7,179
Exchange rate differences	33	34	0	0	30	97
Additions	0	728	113	80	3,022	3,944
Disposals	0	0	(1)	0	0	(1)
Depreciation charge	(208)	(630)	(84)	(43)	0	(966)
Closing net book value	1,967	3,334	169	246	4,536	10,253
At 31 December 2006						
Cost	3,024	6,294	652	474	4,536	14,980
Accumulated depreciation	(1,057)	(2,960)	(483)	(227)	0	(4,727)
Net book value	1,967	3,334	169	246	4,536	10,253

Depreciation and amortization expense of € 949 thousand (2005: € 909 thousand) has been charged to research and development expenses and € 76 thousand (2005: € 81 thousand) to general, selling and administrative expenses.

>> 13. INTANGIBLE ASSETS

€ in thousands	Software	Production technology	Total
Year ended 31 December 2005			
Opening net book value	61	89	150
Exchange rate differences	0	3	3
Additions	2	0	2
Amortization charge	(24)	(23)	(47)
Closing net book value	39	69	108
At 31 December 2005			
Cost	133	115	248
Accumulated depreciation	(94)	(46)	(140)
Net book value	39	69	108
Year ended 31 December 2006			
Opening net book value	39	69	108
Exchange rate differences	0	1	1
Additions	108	0	108
Amortization charge	(36)	(23)	(59)
Closing net book value	111	47	157
At 31 December 2006			
Cost	241	117	358
Accumulated depreciation	(130)	(70)	(200)
Net book value	111	47	157

>> 14. INVESTMENTS IN ASSOCIATES

The Company held interests in the following associates, over which it exercised a significant influence and which were accounted for in the Company's consolidated financial statements using the equity method of accounting:

	Country	At 31 December	
		2006	2005
Biovertis – Information Driven Drug Design AG*	Austria	10.4 %	10.4 %
Pelias Biomedizinische Entwicklungs AG	Austria	46.0 %	46.0 %

*associate until 30 November 2005

The following shows the development of the book value of investments in associates:

€ in thousands	2006	2005
Beginning of the year	0	0
Acquisition of associates	0	40
Additional capital paid in	950	1,000
Obligation to make additional contribution	1,000	500
Share of loss*	(1,437)	(1,540)
End of the year	513	0

* The share of loss charged to income statement is limited to the book value of the investment.

Investments in associates at 31 December 2006 do not include any goodwill.

In November 2005, Biovertis – Information Driven Drug Design AG (“Biovertis”) completed a private placement of 194,194 new shares, and the interest held by the Company was reduced to 10.4 % from 25 %. As a result, Biovertis is no longer considered an associate and has since been presented as a non-current available-for-sale financial asset.

Summarized financial information prepared in accordance with IFRS for Pelias Biomedizinische Entwicklungs AG (“Pelias”), the Company’s only associate is as follows:

€ in thousands	Year ended 31 December 2006 – unaudited –	Year ended 31 December 2005 – unaudited –
Revenues	1,378	0
Net loss	2,428	3,824

€ in thousands	At 31 December 2006 – unaudited –	At 31 December 2005 – unaudited –
Assets	4,107	855
Liabilities	2,991	2,800

>> **15. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

The following table shows the development of the book value of the Company's available-for-sale financial assets:

€ in thousands	2006	2005
Beginning of the year	44,894	23,183
Additions	36,398	39,670
Disposals	(16,145)	(17,895)
Fair value revaluation surplus/(deficit)	376	(64)
End of the year	65,523	44,894

Available-for-sale financial assets include money market investment funds only.

The amount of fair value revaluation surplus that had originally been booked to equity and was subsequently recognized in profit or loss on sale of available-for-sale financial assets for the year 2006 was € 205 thousand (2005: € 206 thousand).

>> **16. TRADE RECEIVABLES AND OTHER ASSETS**

Trade receivables and other assets include the following:

€ in thousands	At 31 December	
	2006	2005
Trade receivables	122	332
Less: provision for impairment of receivables	0	0
Trade receivables, net	122	332
Prepaid expenses	176	148
Receivables from associates (Note 30)	810	1,207
Other receivables	4,304	4,522
Loans to related parties (Note 30)	233	472
	5,645	6,681
Less non-current portion	(233)	(239)
	5,413	6,442

All other non-current assets are due within five years of the balance sheet date.

The fair values of trade and other receivables are as follows:

€ in thousands	At 31 December	
	2006	2005
Trade receivables	122	332
Prepaid expenses	176	148
Accounts receivable from associates	810	1,207
Other receivables	4,304	4,522
Loans to related parties	233	469
	5,645	6,678

Loans to related parties are non-interest bearing (Note 30).

>> 17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash at bank and in hand and short-term bank deposits with a maturity of less than 3 months.

>> 18. RESTRICTED CASH

Restricted cash represents cash received as an advance under a grant contract from the European Commission which was awarded to a consortium of biotechnology companies and academic institutions coordinated by the Company. As coordinator, the Company receives advance payments and is obligated to pass them on to other members of the consortium, when certain conditions, set out in a consortium agreement, are fulfilled. The related liability is included in other payables (Note 23)

» 19. SHARE CAPITAL

€ in thousands (except number of shares)

	<i>Number of shares</i>	<i>Capital paid in by share-holders</i>	<i>Capital from ESOP*</i>	<i>Treasury shares</i>		<i>Total share capital</i>
				<i>Number of shares</i>	<i>Book value</i>	
Balance at 1 January 2005	24,078,000	89,764	3,924	556,927	(566)	93,122
Employee share option plan:						
- value of employee services	-	-	1,395	-	-	1,395
- proceeds from shares issued	109,100	202	-	-	-	202
- treasury stock re-issued	-	-	-	(26,000)	25	25
Issuance of common stock, 28 February 2005 (IPO)	8,500,000	46,750	-	-	-	46,750
Issuance of common stock, 18 March 2005 (IPO greenshoe)	989,132	5,441	-	-	-	5,441
Treasury stock re-issued, 29 April 2005	-	-	-	(12,538)	38	38
Cost of equity transactions	-	(5,874)	-	-	-	(5,874)
Balance at 31 December 2005	33,676,232	136,283	5,319	518,389	(503)	141,099
Balance at 1 January 2006	33,676,232	136,283	5,319	518,389	(503)	141,099
Employee share option plan:						
- value of employee services	-	-	1,646	-	-	1,646
- proceeds from shares issued	1,118,830	1,521	-	-	-	1,521
- Treasury stock re-issued	-	-	-	(12,500)	12	12
Issuance of common stock, 4 July 2006	4,736,835	59,123	-	-	-	59,123
Cost of equity transactions	-	(3,135)	-	-	-	(3,135)
Balance at 31 December 2006	39,531,897	193,792	6,965	505,889	(491)	200,266

*Employee share option plan

At 31 December 2006, the Company had issued 39,531,897 common shares, which were fully paid in. The shares issued have no par value. Each share of the Company has one equal vote and equal dividend right.

In addition, the Company has 3,096,470 shares of conditional capital and authorized conditional capital available to service the exercise of existing and future stock options (Note 20) and 5,263,165 shares of authorized capital available, which the Management Board may use for issuing new shares until 12 May 2011, subject to approval by the Supervisory Board.

In July 2006 the Company has completed a public offering of 4,736,835 new shares and 4,211,013 existing shares (including the over-allotment) at an offering price of € 12.36 per share, which resulted in gross proceeds of € 58.5 million. The net proceeds from the issuance of new shares, after deducting € 3.1 million in offering fees and expenses, were € 55.4 million.

On 8 February 2005, the Company's shares were admitted for listing on the Official Market (Amtlicher Handel) of the Vienna Stock Exchange and started trading on the Prime Market Segment on 28 February 2005, following the completion of an initial public offering. In connection with the offering, the Company issued 9,489,132 shares of common stock, including shares that were issued upon the exercise of the over-allotment option granted to the underwriters, at € 5.50 per share for aggregate gross proceeds of € 52.2 million. After deducting underwriters' commissions of € 2.8 million and offering expenses of € 3.4 million, the Company received net proceeds of approximately € 46.0 million from the offering.

»» **TREASURY STOCK**

In previous accounting periods, the Company had acquired a certain number of its own shares. The amount paid to acquire these shares was recorded at cost and deducted from equity. Such amount deducted from equity was € 491 thousand in the aggregate on 31 December 2006 and € 503 thousands on 31 December 2005.

In 2005, the Company transferred 26,000 treasury shares to its employees for no consideration as an equity incentive. In addition, the Company transferred 12,538 treasury shares to a former employee following a judicial procedure.

In 2006, the Company sold 12,500 of its treasury shares to members of the Supervisory Board upon the exercise of share options.

»» **20. SHARE OPTIONS**

Share options are granted to members of the Management Board, Supervisory Board and employees. In general, options are for the first time exercisable in four equal portions after the Annual General Shareholders' Meeting in the second, third, fourth and fifth year after being granted (the vesting period). Special option packages are 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 lapse without compensation upon termination of employment with the Company (cancellation).

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2006		2005	
	number of options	Average exercise price in € per share	number of options	Average exercise price in € per share
Outstanding at 1 January	3,105,300	3.43	2,523,200	1.91
Granted	813,000	16.17	730,000	8.46
Forfeited	(149,175)	4.68	(38,800)	1.99
Exercised	(1,131,330)	1.86	(109,100)	1.85
Outstanding at 31 December	2,637,795	7.98	3,105,300	3.43
Exercisable at 31 December	531,145	1.87	749,550	1.85

All amounts have been adjusted to reflect the capital adjustment in June 2004 (stock split 1:100).

Options exercised in 2006 resulted in 1,118,830 shares being issued (2005: 109,100 shares) at € 1.85 to € 2.10 each. In addition, 12,500 shares of treasury stock (recorded at an average historical price of € 0.97) were sold at € 1.85 to € 2.10 per share in 2006 for servicing the exercise of stock options. The weighted average value per share at the time of option exercise was € 12.36 in 2006 (2005: € 7.24).

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price in € per share	Number of Options at 31 December	
		2006	2005
June 2006	1.85	-	628,700
June 2007	1.85	99,300	227,400
June 2008	1.85	607,720	961,600
June 2009	2.10	442,775	557,600
June 2010	5.50	10,000	10,000
June 2010	8.50	685,000	720,000
June 2011	10.72	70,000	-
June 2011	16.85	723,000	-
		2,637,795	3,105,300

The weighted-average grant-date fair value of options granted during the year 2006 was € 4.70 (2005: € 2.17). The fair value of the granted options granted was determined using the Black Scholes valuation model. The significant inputs into the models were:

	2006	2005
Expected volatility	32.98 – 39.47	26.83 – 48.42
Expected vesting period (term in years)	1.50 – 4.50	1.50 – 4.50
Risk-free interest rate (%)	3.57 – 3.90	2.08 – 3.06

In 2006, 813,000 share options were granted to members of the Management Board, Supervisory Board and employees at € 10.72 -16.85 per share (expiry date: June 2011).

>>

21. OTHER RESERVES

€ in thousands	Unrealized gains	Currency Translation	Total
Balance at 1 January 2005	356	(62)	294
Fair value losses from available-for-sale financial assets	(64)	0	(64)
Currency translation differences	0	33	33
Balance at 31 December 2005	292	(29)	263
Balance at 1 January 2006	292	(29)	263
Fair value gains from available-for sale financial assets	376	0	376
Currency translation differences	0	29	29
Balance at 31 December 2006	668	0	668

» **22. POST-EMPLOYMENT BENEFIT OBLIGATIONS**

As required under Austrian labor law, the Company makes contributions to a multi-employer defined contribution plan (Mitarbeitervorsorgekasse). Monthly contributions to this plan are recognized in the period incurred. Monthly contributions to the scheme amount to 1.53 % of the salary of each respective employee. In the years ended 31 December 2006 and 2005, contribution costs amounted to € 101 thousand, and € 71 thousand respectively.

» **23. TRADE AND OTHER PAYABLES**

Trade and other payables include the following:

€ in thousands	At 31 December	
	2006	2005
Trade payables	3,899	6,334
Accrued expenses	4,330	2,907
Social security and other taxes	478	344
Other payables	1,657	871
	10,363	10,456

» **24. DEFERRED INCOME**

Deferred income includes payments received under collaboration and licensing agreements and grant contracts attributable to future accounting periods.

» **25. BORROWINGS**

Borrowings of the Company at year end include the following:

€ in thousands	At 31 December	
	2006	2005
Loans due to commercial banks guaranteed by FFG (Forschungs-Förderungs-Gesellschaft mbH)	585	900
Loans due to a commercial bank guaranteed by aws (Austria Wirtschaftsservice Gesellschaft mbH)	1,395	2,093
Loan due to aws (Austria Wirtschaftsservice Gesellschaft mbH)	1,174	1,214
Total borrowings	3,155	4,207
Less: current portion of long term debt	(998)	(1,337)
Total non current borrowings	2,157	2,870

The maturity of non-current borrowings is as follows:

€ in thousands	At 31 December	
	2006	2005
Between 1 and 2 years	698	998
Between 2 and 3 years	0	698
Between 3 and 4 years	1,174	0
Between 4 and 5 years	285	1,174
Over 5 years	0	0
	2,157	2,870

The effective interest rates on the balance sheet date were as follows:

€ in thousands	At 31 December	
	2006	2005
Loans due to commercial banks guaranteed by FFG (Forschungs-Förderungs-Gesellschaft mbH)	1.96% - 2.00%	1.96 %
Loans due to a commercial bank guaranteed by aws (Austria Wirtschaftsservice Gesellschaft bmH)	2.95 % and 3 M EURIBOR + 0.5 %	2.95 % and 3 M EURIBOR + 0.5 %
Loan due to aws (Austria Wirtschaftsservice Gesellschaft mbH)	4.00 %	4.00 %

As outlined in Note 9, all loans are guaranteed by Austrian governmental organizations.
For one loan, the company in addition receives subsidies on interest under these programs.

The following table presents the fair value based on the year-end bank interest rate of 4.25% (2005: 4 %) for the guaranteed borrowings without interest subsidy:

€ in thousands	Carrying amounts at 31 December		Fair Value at 31 December	
	2006	2005	2006	2005
Loans due to commercial banks guaranteed by FFG (Forschungs- Förderungs-Gesellschaft mbH)	585	900	561	882
Loans due to a commercial bank guaranteed by aws (Austria Wirtschafts- service Gesellschaft mbH)	1,395	2,093	1,396	2,084
Loan due to aws (Austria Wirtschafts- service Gesellschaft mbH)	1,174	1,214	1,210	1,257
	3,154	4,207	3,167	4,223

»» 26. CASH USED IN OPERATIONS

The following table shows the adjustments to reconcile net loss to net cash used in operations:

€ in thousands	Note	Year ended 31 December	
		2006	2005
Loss for the period		(16,143)	(25,060)
Adjustments for			
- Depreciation and amortization	12/13	1,023	990
- Share - based compensation	20	1,646	1,421
- Tax	10	415	(280)
- (Profit)/loss from sale of property, plant and equipment	below	1	2
- Other non cash expense		561	0
- Profit on disposal of available-for-sale financial assets	15	(187)	(231)
- Interest income	9	(679)	(688)
- Interest expense	9	128	195
- Share of loss from associates	14	1,437	1,540
- Changes in other long term assets		247	8
Changes in working capital (excluding the effects of acquisition and exchange rate differences on consolidation):			
- Work in progress		0	311
- Trade and other receivables		562	(5,752)
- Restricted cash		176	129
- Trade and other payables		3,420	3,542
Cash used in operations		(7,393)	(23,873)

The following table shows the adjustments to reconcile net loss from sale of property, plant and equipment to proceeds from sale of property, plant and equipment:

	Note	2006	2005
Net book value		1	2
Loss on sale of property, plant and equipment	12	(1)	(2)
Proceeds from sale of property, plant and equipment		0	0

»» 27. COLLABORATION AND LICENSE AGREEMENTS

The Company has entered into various agreements with industrial partners and agencies under which it receives or grants certain rights on vaccine technologies, product candidates and intellectual property. The terms of these agreements include milestone payments, which are contingent on achievement of certain development milestones by the party receiving such rights as well as royalty payments, which are contingent on sales of products derived through use of such rights.

»» IN-LICENSE AGREEMENTS

In June 1998, the Company entered into an agreement with Boehringer Ingelheim International GmbH (BII). Pursuant to this agreement, the Company obtained the right to use the TransVax technology in the research and development of products for 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 has granted royalties on future net product sales to BII.

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, 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. Expected future funding commitments for milestone payments under this agreement are \$ 4,700 thousand (2005: \$ 5,700 thousand).

In September 2003, the Company 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. The Company is subject to annual license and milestone payments. In addition, royalties on net sales will be payable by the Company upon commercialization.

In November 2004, the Company obtained a worldwide non-exclusive license from Aventis Pasteur S.A. (now Sanofi Pasteur S.A.) for certain intellectual property rights related to the Company’s Japanese Encephalitis vaccine. The Company is not required to pay any upfront or milestone payments in connection with this license, but the Company will be required to pay royalties on net sales of the vaccine upon its commercialization.

License and milestone payments amounting to € 904 thousand (2005: € 1,176 thousand) have not been recognized as intangible assets due to the uncertainty as to whether such assets will generate any future economic benefits for the company.

Future royalty obligations which are contingent upon future product sales are not quantifiable due to uncertainty over future product sales.

» OUT-LICENSE AGREEMENTS

In December 2003, the Company entered into collaboration and licensing agreement with Aventis Pasteur S.A. (now Sanofi Pasteur S.A.) under which it has identified relevant antigens for the use in a bacterial vaccine. In June 2005, Sanofi exercised its option to acquire a worldwide exclusive license from the Company with respect to the intellectual property rights in the specific field of this collaboration. The Company is entitled to receive license fees, research and development funding, milestone payments and royalty payments on product sales.

In February 2004, the Company entered into a commercial license agreement with the Statens Serum Institut (SSI) for the development of a new prophylactic tuberculosis vaccine. The vaccine combines recombinant tuberculosis antigens developed by SSI with the Company's synthetic Immunizer IC 31™ as an adjuvant. The Company has the right to receive an immediate initial fee, milestone payments and a substantial share in the profits on the future product commercialization.

In May 2004, the Company signed a worldwide exclusive commercial license agreement with Merck&Co., Inc. ("Merck") allowing Merck to develop a bacterial vaccine against *Staphylococcus aureus* infections and granting Merck an option to develop antibody products. This option was exercised in May 2006. The Company will, upon successful completion of certain development milestones by Merck, receive further license payments and has the right to royalty payments on future product sales.

In March 2006, the Company entered into a collaboration agreement with Kirin Brewery Co Ltd. to develop human monoclonal antibodies against severe infections caused by *Streptococcus pneumoniae*. Over the term of the agreement, Intercell is entitled to receive license fees, milestone payments, and significant royalties on future net sales of the product.

In September 2006, the Company has entered into an agreement with Wyeth Pharmaceuticals under which it granted a worldwide non-exclusive license option to use Intercell's synthetic adjuvant IC31™ in various selected infectious disease vaccine programs. After exercise of the license-option, Intercell is entitled to receive option exercise and milestone payments as well as royalties on future product net sales.

In October 2006, the Company entered into an agreement with Merck Sharp & Dohme Research Ltd., an affiliate of Merck & Co., Inc. ("Merck") under which it granted a worldwide exclusive commercial license to develop a prophylactic vaccine against Group A Streptococcus infections and a license-option to develop antibody products. In addition, the Company will perform certain research services in connection with the development of the vaccine. The Company has received an initial license payment and will receive further milestone payments upon successful completion of certain development milestones by Merck as well as service fees and royalty payments on future product sales.

A commercial collaboration and license agreement with SciGen Ltd. for the development of a new therapeutic Hepatitis B vaccine, which the Company had entered into in December 2004, was terminated in November 2006.

>> **OTHER COLLABORATIONS**

In June 2006, the Company agreed to enter into a marketing and distribution partnership for its Japanese encephalitis vaccine in the United States, Europe and certain other markets in Asia and Latin America with Novartis Vaccines and Diagnostics, Inc. ("Novartis"). In addition, Novartis invested € 29.7 million in the purchase of new shares of the Company in a public offering in June 2006 and received first negotiation rights with respect to certain product candidates derived from the Company's technology platforms.

In December 2006, the Company agreed the further terms and conditions of the marketing and distribution partnership with Novartis by executing a detailed marketing and distribution agreement. Under the terms of this agreement, Intercell is responsible for the development and manufacturing of the vaccine and will sell the vaccine to Novartis at a transfer price, which is based on the net sales of the vaccine less a certain distribution margin. Novartis is responsible for marketing and distribution of the vaccine at its own cost and, in addition, is obliged to make certain milestone payments upon achievement of development and regulatory milestones by the Company. A milestone payment of € 10 million depending on final phase III data has been received in December 2006 and further milestone payments will be due upon regulatory approvals of the vaccine in the United States and European Union.

In addition, the Company has entered into marketing and distribution alliances with CSL Ltd. for Australia, New Zealand, Papua New Guinea and certain Pacific islands and with Biological E Limited for India, Pakistan, Nepal and Bhutan.

The Company has also entered into a number of material transfer agreements with pharmaceutical and biotechnology companies pursuant to which it makes its proprietary adjuvant technology available for evaluation for the development of novel vaccines, without granting any commercial rights.

» 28. COMMITMENTS AND CONTINGENCIES

Future aggregate minimum lease commitments under non-cancelable operating leases are as follows:

€ in thousands	At 31 December	
	2006	2005
Not later than 1 year	695	969
Later than 1 year and not later than 5 years	5,328	4,482
Later than 5 years	10,510	12,012
	16,533	17,463

In addition, the Company leases parking space, employee habitation, cars and equipment under cancelable operating lease agreements. These leases have varying termination clauses.

The Company has entered into contractual arrangements with members of the Management Board and key employees entitling them to a one-off payment in certain cases of termination of their employment relationship with the company. Contingent liabilities under these contractual arrangements on 31 December 2006 amounted to € 1,171 thousand (on 31 December 2005: € 651 thousand).

For commitments and contingencies resulting from transactions with related parties see note 30.

» 29. BUSINESS COMBINATIONS

No acquisitions have been made in the years ended 31 December 2005 and 2006.

Subsequently to the balance sheet date, the Company acquired additional 50.4 % of the shares outstanding from its former associated company Pelias Biomedizinische Entwicklungs AG ("Pelias") in exchange for 349,815 new Intercell shares (see note 31). The fair value of the shares issued was determined using the last stock exchange price before the acquisition date. The Company holds approximately 100 % of the shares outstanding of Pelias. Pelias, together with its subsidiaries, is engaged in research and development in the field of hospital infections.

Details of net assets acquired and goodwill are as follows:

€ in thousands

Purchase consideration	
- Initial contributed capital at formation	32
- Additional capital calls	3,450
- Fair value of shares issued as consideration at acquisition date	6,034
- Direct costs relating to the acquisition	36
Total purchase consideration	9,552
Increase in fair value of net assets already held, net of initial contributed capital and capital calls	2,492
Fair value of net assets acquired	(12,044)
Goodwill	0

The assets and liabilities arising from the acquisition, provisionally determined, are as follows:

€ in thousands	Fair value	Acquiree's carrying amount
Cash and cash equivalents (including restricted cash)	2,917	2,917
Property, plant and equipment and Software	152	152
Trade and other receivables	1,031	1,031
In-process Research and Development projects	19,253	-
Deferred tax liabilities	(4,813)	-
Trade and other payables	(2,792)	(2,792)
Borrowings (silent partnership)	(3,702)	0
Net assets acquired	12,044	1,308

»» 30. RELATED-PARTY TRANSACTIONS

The following transactions were carried out with related parties:

»» SALES OF GOODS AND SERVICES

€ in thousands	Year ended 31 December	
	2006	2005
Sales of capital assets and intellectual property rights to associates	0	900
Sales of goods and services to associates	951	133
	951	1,033

In 2006, the Company received service fees of € 900 thousand from Pelias Biotechnologies GmbH, an affiliate of Pelias Biomedizinische Entwicklungs AG (together “Pelias”) for research services performed in the field of hospital acquired bacterial infections. In 2005, the Company received € 900 thousand under a capital asset purchase agreement with Pelias for the transfer of certain know-how and materials in the field of hospital infections. In addition, the company received fees for administrative services and pass-through costs from Pelias.

The Company is also party to a licensing agreement with Pelias in the field of hospital infections under which it is entitled to receive royalty payments on product sales and to a shareholders’ agreement with Pelias and its other shareholders.

»» KEY MANAGEMENT COMPENSATION

The aggregate compensation of the members of the Company’s Management Board includes the following:

€ in thousands	Year ended 31 December	
	2006	2005
Salaries and other short-term employee benefits	2,005	1,741
Other long-term benefits	36	46
Share-based payments (stock compensation expense)	1,147	887
	3,188	2,674

>> SUPERVISORY BOARD COMPENSATION

The aggregate compensation of the members of the Company's Supervisory Board amounted to € 219 thousand (2005: € 152 thousand).

>> YEAR-END BALANCES ARISING FROM SALES OF GOODS/SERVICES

€ in thousands	At 31 December	
	2006	2005
Receivables from related parties:		
- Associates	10	1,207

>> YEAR-END BALANCES FROM LOANS TO RELATED PARTIES

€ in thousands	At 31 December	
	2006	2005
Fair value of loans to associates	800	0
Fair Value of loans to Management	233	472
	1,033	472
Less: current portion	(800)	(247)
Non-current portion	233	225

In 2001, the Company granted an interest-free loan of € 247 thousand to Alexander von Gabain, the Company's Chief Scientific Officer which had an initial term of five years and was subsequently extended until termination of his employment. Another former key employee of the Company who has also received a loan of € 247 thousand, repaid his loan in full in March 2006.

No provision has been required for loans to the management. In October 2006, the Company granted a short-term loan of € 800 thousand to Pelias.

>> COMMITMENTS AND CONTINGENCIES

In October 2006, the Company has entered into a bridge loan agreement with Biovertis Information Driven Drug Design AG ("Biovertis"), under which it committed, subject to certain terms and conditions, to provide a loan of € 500 thousand to Biovertis. The loan, if drawn, may subsequently be redeemed or converted in shares of Biovertis' preferred stock.

» 31. EVENTS AFTER THE BALANCE SHEET DATE

In January 2007, the Company acquired 32,692 shares in Pelias Biomedizinische Entwicklungs AG in exchange for 349,815 new Intercell shares with a market value of € 6,034 thousand (see Note 29). After the acquisition, the Company holds all of the outstanding shares of Pelias, except one share, which is held by ATI Vermögenstreuhandgesellschaft m.b.H. Following the completion of the transaction, the Company's total number of shares outstanding is 39,375,823.

Vienna, 22 March 2007

The Management Board



GERD ZETTLMEISSL, CEO



ALEXANDER VON GABAIN, CSO



WERNER LANTHALER, CFO

The consolidated financial statements of Intercell AG for the fiscal year from 1 January 2006 to 31 December 2006, the management report and the audit opinion thereon have been issued in German language in accordance with section 245a and 193 of the Austrian Commercial Code. We draw attention to the fact that this translation into English is presented for convenience purposes only and that the German wording is the only legally binding version.

>> 1. OPERATIONAL AND BUSINESS REVIEW

>> RESEARCH & DEVELOPMENT PROGRAMS

Intercell is focused on the design and development of novel vaccines for prevention and treatment of infectious diseases with substantial unmet medical need. The Company develops antigens and immunizers (adjuvants) which are derived from its proprietary technology platforms. Based on these technologies, Intercell has strategic partnerships with a number of global pharmaceutical companies, including Novartis, Merck&Co., Inc, sanofi pasteur, Kirin, Wyeth and the Statens Serum Institut.

The Company's lead product, a prophylactic vaccine against Japanese Encephalitis has successfully concluded pivotal Phase III clinical trials. The regulatory process towards a Biologics License Application (BLA) to the U.S. Food and Drug Administration (FDA) has been initiated. The broad development pipeline includes a therapeutic vaccine for Hepatitis C in Phase II, a Pseudomonas vaccine in Phase II, partnered vaccines for Tuberculosis and S. aureus which are in Phase I, and five products focused on infectious diseases in pre-clinical development.

>> Japanese Encephalitis

In the course of last year, Intercell has achieved significant progress in the development of its Japanese Encephalitis Vaccine. The pivotal Phase III immunogenicity and safety trials have been successfully completed, demonstrating a favorable safety and immunogenicity profile. Based on this data, the regulatory process towards a Biologics License Application (BLA) to the U.S. Food and Drug Administration (FDA) has been initiated.

Intercell is primarily targeting the travelers and armed forces market in the United States, Europe and Australia as well as private markets in endemic areas with the aim to replace current suboptimal vaccines. The market potential for a safe and efficient vaccine against JEV is estimated to be greater than € 250 million. The current vaccine available on an international basis is made from infected mouse brains and has considerable side effects. Because of the sophisticated production technology required, hypersensitivity and side effects upon vaccination with first generation vaccines, the WHO is encouraging the development of safe, tolerant and immunogenic new Japanese Encephalitis vaccines.

Intercell's Japanese Encephalitis Vaccine was granted orphan drug status by the European Commission, resulting in ten years of market exclusivity in the European Union upon product registration. In 2006, Intercell made significant progress in putting its global marketing and distribution process in place for this product. Novartis was selected as Intercell's marketing and distribution partner in the United States, Europe and certain other markets in Asia and Latin America. CSL will be Intercell's distribution partner in Australia, New Zealand, Papua New Guinea and the Pacific Islands. Biological E is the designated distribution partner for India, Bangladesh, Nepal and Bhutan.

»» Hepatitis C

In 2006, Intercell successfully advanced its therapeutic Hepatitis C T-cell Vaccine. After a first Phase II clinical study for the therapeutic vaccine, an optimization study was completed in early 2006 and results indicated that the vaccine, when given in optimized route and schedule, is considerably more immunogenic than it has been previously shown to be. The optimization study showed that the T-cell responses were stronger and significantly more frequent than has been seen up to now. Compared to the previous regime, the improvements were positive and meet the success criteria for further development.

Based on the optimized route and frequency of administration, Intercell has started a Phase II – proof of concept – clinical trial in naive chronic Hepatitis C patients. Success criteria for this study, which is already fully recruited, include significant and sustained reductions of viral load correlating with T-cell response. The first results of this Phase II study are expected in mid 2007. Forward strategies comprise options for mono- and/or combination therapies.

Moreover, Intercell has completed a Phase II clinical trial, testing its vaccine in combination with Interferon/Ribavirin standard therapy. The study proved a good safety profile of the vaccine when used concomitantly with PegINF-RBV. Furthermore, the level of the critical T-cell response generated was similar to what had been seen in previous studies in which chronic patients or healthy subjects were vaccinated with the vaccine alone, indicating that there was no apparent interference of PegINF-RBV with vaccine immunogenicity.

According to WHO estimates, approximately 170 million individuals worldwide are chronically infected with HCV and three to four million are newly infected every year. In the United States, HCV causes between approximately 8,000 and 10,000 deaths per year. There is currently no vaccine against HCV. The global market for interferon treatments is expected to be approximately \$ 3.7 billion per year in 2006. Interferon, Ribavirin and pegylated interferon are the current

standard medications for treating HCV. The costs per treatment are very high and only 50 percent of patients treated have a sustained viral response rate. Side effects from the regime include flu-like symptoms, muscle and joint pain, nausea, headaches, fatigue, loss of appetite, dry skin, anxiety and depression. Due to its substantial side effects, there is a significant demand for additional treatment options that may increase the effectiveness of this regime and/or delay the need for its use.

>> **Staphylococcus aureus**

In December 2006 Intercell was informed by its strategic partner Merck & Co., Inc. that the partnered recombinant subunit vaccine to prevent Staphylococcus aureus (S.aureus) infection showed promising results in a Phase I study. The vaccine is based on a conserved protein antigen discovered by Intercell's Antigen Identification Program (AIP®) and was licensed to Merck & Co., Inc. on an exclusive world wide basis in 2003. Staphylococcus aureus is the most frequent cause of hospital-acquired infections which are one of the major causes of death and serious illnesses worldwide, resulting in annual costs of more than \$20 billion in the developed world. The incidence of S. aureus is steadily increasing due to medical interventions and most notably due to the emergence of antibiotic-resistant bacteria circulating in hospitals.

>> **Tuberculosis**

Significant progress was also made in the Tuberculosis vaccine program for which Intercell's partner Statens Serum Institut conducted a Phase I clinical trial in the Netherlands to assess the safety and immunogenicity in healthy volunteers. In this trial it was proved that the new vaccine is safe and very immunogenic. The vaccine is a recombinant subunit vaccine based on two important TB antigens resulting from SSI's research pipeline combined with Intercell's proprietary adjuvant IC31™. Tuberculosis causes the death of about two million people every year and one-third of the world's population is infected by Mycobacterium tuberculosis which makes this disease one of the most severe global health problems.

>> **Pseudomonas**

Through the full acquisition of Pelias Biomedizinische Entwicklungs AG, Intercell was able to add a clinical stage Pseudomonas vaccine candidate and a number of antigens relevant for other important hospital acquired infections to its research and development pipeline. Hospital-acquired infections rank among the major causes of death and serious illness worldwide. Conservative estimates put the number of hospital-acquired infections at around 2 million per year only in the US, leading to around 100,000 deaths and resulting into an accumulated annual burden of more than USD 20 billion in the developed world.

» Technologies and Preclinical Products

The Company's approach for developing "smart vaccines" is based on two core technologies, the Antigen Identification Program (AIP®) and the Vaccine Improvement Program (VIP).

The AIP® utilizes the immune response of infected, but still healthy individuals who have already been exposed to a particular pathogen in order to discover the antigens associated with that pathogen. The immune response of these individuals, in the form of antibodies and/or T-cells, enables the Company's scientists to determine and identify which of these antigens induce a strong, protective immune response in an uninfected individual and form a viable basis for a novel vaccine. Intercell's AIP® is protected by a European Patent entitled "A method for identification, isolation and production of antigens to a specific pathogen". Through the AIP®, the Company's scientists have successfully identified and patented a large number of novel antigens relating to a wide variety of infectious diseases and screening of additional targets is ongoing. In addition to the development of prophylactic and therapeutic vaccines, Intercell intends to utilize its proprietary antigens for the development of therapeutic antibodies against acute infections. In 2006, the Company established new strategic partnerships with leading pharmaceutical companies that are experienced in antibody development and production.

Within the Company's VIP, a new generation of adjuvants that stimulate a human immune response by both B-cells and T-cells has been developed and led to Intercell's second generation immunizer IC31™. This innovation is critical to the development of better and safer vaccines. In addition, IC31™ can be produced synthetically at a higher purity, more uniform quality and at a competitive cost. In a number of preclinical tests with a variety of potential antigens, such as peptides and proteins, IC31™ proved to have superior T-cell-inducing capabilities. In early 2007, these results were also confirmed in humans by a Phase I clinical trial which was conducted by Statens Serum Institute (SSI) for Intercell's partnered Tuberculosis vaccine.

In its preclinical product development programs, the Company primarily focused on vaccines against *Streptococcus pneumoniae* and Group A *Streptococcus* infections as well as antigen programs for Travelers' Diarrhea, Group B *Streptococcus* and germs involved in nosocomial infections.

Significant progress could be made in the development of a protein-based *Streptococcus pneumoniae* vaccine, a project which the Company plans to develop and bring into clinical trials on its own. Intercell is aiming to prevent infection by all serotypes of the infective agent by its vaccine, for which a product candidate for clinical development has been defined and production of clinical trial material has been initiated. The currently approved vaccine against *Streptococcus pneumoniae* only covers a small fraction of the 90 different *Streptococcus pneumoniae* serotypes. There is a high unmet medical need for a novel and safe vaccine especially in the elderly population and in developing countries.

In 2006, Intercell entered into a collaboration with PATH (Program for Appropriate Technology in Health) which provides funding for the development of the vaccine in order to make it available at an affordable cost for children in certain developing world countries. Intercell retains all rights in developed countries.

In addition, Intercell could obtain further funding under the European Commission's Sixth Framework Program for a program to develop a novel vaccine against otitis media together with a consortium of academic and commercial partners co-ordinated by Intercell, and funding from the Austrian Research Promotion fund for Intercell's therapeutic vaccine against Hepatitis C could be extended.

»» Strategic Alliances and Licenses

It is part of the Company's strategy to establish strategic partnerships with pharmaceutical and vaccine companies in order to generate early revenues and to leverage the Company's technologies and product candidates. Therefore Intercell licenses its technologies to partners for creating new vaccines and antibody products or to improve existing vaccines. In 2006, significant progress was made in existing partnered programs and further strategic partnerships were established. Merck & Co., Inc and Statens Serum Institut reported promising data in Phase I studies for a S. aureus vaccine and a Tuberculosis vaccine, respectively. Currently the Company maintains strategic partnerships with the following vaccine companies and institutions:

Indication	Strategic partner
Japanese Encephalitis vaccine	Novartis (marketing and distribution)
Staphylococcus aureus vaccine	Merck & Co., Inc.
Staphylococcus aureus antibodies	Merck & Co., Inc.
Tuberculosis vaccine	Statens Serum Institut
Undisclosed bacterial vaccine	sanofi pasteur
Pneumococcus antibodies	Kirin Brewery
IC31™ as vaccine adjuvant	Wyeth Pharmaceuticals
Group A Streptococcus vaccine	Merck & Co., Inc.

In addition, the Company has cooperative research and development agreements in place with the Centers for Disease Control and Prevention (Streptococcus pneumoniae vaccine), the United States Naval Medical Research Center (Malaria vaccine) and the National Institute of Health (biodefence targets).

Under a new partnership Intercell collaborates with Kirin Brewery Co Ltd. to develop human monoclonal antibodies against severe infections caused by *Streptococcus pneumoniae*. Intercell received a license payment of € 4 million and is entitled to receive milestone payments totaling approximately € 40 million and royalties on future net sales of the product. The field of monoclonal antibodies against bacterial infections represents a novel use for Intercell's antigen identification technology with significant potential in anti-infection applications, in addition to their use in the field of vaccines. A second partnership in the antibody field was started when Merck & Co., Inc. exercised its option to develop antibodies against *S.aureus* infections.

Intercell's novel IC31™ adjuvant was endorsed by a new partnership with Wyeth Pharmaceuticals, who were granted a worldwide non-exclusive license-option for the use of Intercell's adjuvant IC31™ in various selected infectious disease vaccine programs. Upon successful development of these programs, Intercell is entitled to receive up to \$ 77 million in option and milestone payments as well as royalties on future product net sales.

Another major vaccine partnership was started with Merck & Co., Inc. to develop a prophylactic vaccine against Group A *Streptococcus* infections. Under the agreement Intercell licensed certain antigens identified by its Antigen Identification Program (AIP®) and which have shown promising profiles in preclinical vaccine models. In addition, the Company will perform certain research services in connection with the development of the vaccine. The agreement includes a \$ 9.5 million upfront license payment, up to \$ 76 million milestone payments as well as royalties on future net sales of the product.

One of Intercell's existing partnerships, a commercial collaboration and license agreement with SciGen Ltd. for the development of a new therapeutic Hepatitis B vaccine was terminated in 2006.

>> Environmental Responsibility and Employees

Intercell develops novel biopharmaceutical products that address significant unmet medical needs. The development of vaccines and medications against infectious diseases is not only an attractive business opportunity but a contribution to society that provides value beyond commercial standards. Intercell is committed to create products that improve people's lives, while persevering the environment and conserving natural resources. The manufacturing and commercialization of Intercell's product candidates have minimal environmental impact and enhance the safety of its customers. The Company believes that corporations should conduct their business as responsible stewards of the environment and will conduct its operations without compromising environmental responsibility.

Intercell aims to attract, retain and motivate the highest caliber of employees within the context of an operating structure that encourages their development and initiative. Employees are provided with continuing learning and development opportunities to fulfill their potential. The Company believes that qualification and commitment of its employees form the basis for commercial success. Intercell's remuneration policy, in particular its bonus system and stock compensation schemes for permanent employees, reflects that belief. In 2006, Intercell has been officially recognized as »Investor in People« by the IiP-Recognition-Panel for its excellence in human resource programs.

As of 31 December 2006, the Company employed 188 personnel, of whom 138 were engaged in research and development activities and 50 were engaged in selling, general and administrative activities not associated with research and development activities. Of the personnel engaged in research and development, 47 were scientists, 43 were technicians and lab assistants, 37 were supporting staff and 11 were diploma or PhD students.

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2. FINANCIAL REVIEW

Intercell's aggregate annual revenues increased from € 8.5 million in the year ended December 31, 2005 to € 23.5 million in the year ended December 31, 2006, or by 176.5 percent. This strong increase was due to higher revenues from collaborations and licensing resulting from new partnerships with pharmaceutical companies and from significant progress made in the existing collaborations. Revenues from collaborations and licensing were € 21.5 million in 2006, compared to € 6.3 million in 2005, which represents an increase of 241.3 percent. Grant income decreased by 9.5 percent from € 2.1 million in 2005 to € 1.9 million in 2006.

Intercell's net loss for the year ended December 31, 2006 was € 16.1 million, compared to € 25.1 million in 2005. This decrease by 35.9 percent represents a change in the trend of increasing net losses throughout the previous years. The decrease in net loss was due to the strong increase in revenues, while net operating expenses also continued to increase as a result of the progress of Intercell's development programs. Research and development costs increased from € 28.5 million in 2005 to € 31.0 million in 2006, or by 8.8 percent. General, selling and administrative expenses were € 10.5 million in 2006 and € 9.0 million in 2005, which represents an increase of 16.7 percent. Net other operating income decreased from € 3.1 million in 2005 to € 1.4 million in 2006, primarily due to lower R&D tax credits. Income from transactions with associated companies was € 1.0 million in both, 2006 and 2005. Aggregate net operating expenses increased by 17.4 percent from € 33.3 million in 2005 to € 39.1 million in 2006. Due to the higher level of cash and marketable securities, net financial income increased by 18.2 percent from € 1.1 million in 2005 to

€ 1.3 million in 2006. Income tax expense was € 0.4 million in the year ended December 31, 2006, which compares to a net tax credit of € 0.3 million in the prior year, which resulted from recognition of a deferred tax asset in a subsidiary.

Intercell's net cash used in operating activities for the year ended December 31, 2006 was € 8.0 million compared to € 24.0 million in the previous year. This decrease in operating cash requirement was due to the lower net loss and the positive cash flow from reduction of net working capital. Net cash used in investing activities of € 24.8 million in 2006 and of € 23.8 million in 2005 resulted primarily from investments in short-term available for sale financial assets of the cash proceeds from financing activities. Without giving effect to investments in and proceeds from sale of securities, net cash used in investing activities was € 5.0 million in the year ended December 31, 2006, compared to € 2.2 million in the year ended December 31, 2005. This increase was primarily due to investments into the company's manufacturing facility in Scotland for setting up the commercial production of the Japanese Encephalitis Vaccine. Net cash provided by financing activities was € 56.5 million in the year ended December 31, 2006 and € 44.9 million in the year ended December 31, 2005. Financing proceeds in 2005 resulted from Intercell's initial public offering (IPO) and financing proceeds in 2006 were primarily due to a secondary public offering completed in July 2006, which resulted in net proceeds to the company, of € 55.4 million after deducting underwriting commissions and offering expenses. In the offering 4,736,835 new shares were sold at an offering price of € 12.36 per share, in addition to 4,211,013 shares sold by existing shareholders. As of December 31, 2006, Intercell had liquid funds of € 94.4 million of which € 28.9 million was cash and cash equivalents and € 65.5 million was available-for-sale securities.

The Management believes that the following key financial figures represent accurate indicators of the Company's financial performance. However, as long as a biotech company is loss-making, its performance is not usually linked to financial indicators but to the progress in its development programs.

€ in thousands

	Year ended 31 December		
	2006	2005	2004
Revenues	23,452	8,469	4,581
Net loss	(16,143)	(25,060)	(21,042)
Net operating cash flow	(7,979)	(24,023)	(11,962)
Cash and marketable securities, end of period	94,421	50,178	31,350

» 3. RISK REPORT

Pursuing innovation that is based on latest scientific discoveries and novel technologies offers huge potential rewards but also includes the inherent risk of failure. In particular, Intercell is exposed to the following risk factors:

The Company has never generated revenues from the commercial sale of a product, and has incurred significant losses since its inception and may never achieve or sustain profitability. In particular, the Company's JEV vaccine, which has completed Phase III pivotal clinical trials, and the HCV vaccine, which is currently in Phase II clinical trials, will involve substantial expenditures. The result of these clinical trials is inherently uncertain and the Company may experience delays or failures in clinical trials or in obtaining regulatory approvals.

The Company will require regulatory approvals from the U.S. Food and Drug Administration, or FDA, European Medicines Agency, or EMEA, and other relevant regulatory agencies in order to continue to develop and commercialize its product candidates. Despite significant effort and expense, regulatory approval for these product candidates may be delayed or denied at any stage of their development.

The vaccine industry is highly competitive, and if the Company's competitors commercialize their products more quickly than Intercell or develop alternatives to Intercell's products, the Company might lose a significant share of the expected market.

The Company's ability to commercialize its product candidates or to license its technologies depends on the ability to obtain and maintain adequate protection of proprietary and intellectual property rights. If the Company's efforts to protect its intellectual property rights are not sufficient, competitors may use its technologies to create competing products, erode the Company's competitive advantage and capture all or a part of its expected market share.

The success of the Company's strategic partnerships depends, in part, on the performance of the strategic partners, over which the Company has little or no control. Partners may elect to delay or terminate one or more of these strategic partnerships, independently develop products that could compete with the Company's product candidates, or fail to commit sufficient resources to the development or commercialization of the product candidates, partnered with the Company.

Future business opportunities or a delay or failure in the development or commercialization of one or more of the Company's product candidates may result in requirements for additional funding, which may only be available, if at all, with unfavorable consequences or on unfavorable terms.

The Company's manufacturing facility in Livingston (Scotland) is, and will continue to be, a significant factor in maintaining complete control over its product candidates, development timelines and production costs. The manufacturing of biological materials is a complex undertaking and may experience delays or be unsuccessful. In addition, if external manufacturers do not meet the Company's requirements, the development and commercialization of product candidates may be limited or delayed.

In addition, the Company's product liability insurance coverage may not be sufficient to cover product liability claims, which Intercell may incur as a result of the use of its product candidates in clinical trials or the sale of future products. The development and commercialization of the Company's product candidates may be delayed if Intercell is unable to recruit and retain qualified personnel or if any of the key members of the management or scientific staff discontinues his or her employment or consulting relationship with the Company. Depreciation or fluctuation of currencies or changes in interest rates could adversely affect the Company's financial condition and results of operations.

In order to manage the risks associated to its business activities, the Company maintains a close risk monitoring system and continuously evaluates the risk-reward profile of its research and development programs. Management mitigates the risk inherent to the Company's business as an innovative biotech company by maintaining a broadly diversified mix of development programs in different indications and stages of development as well as own and collaborative development activities.

» 4. DISCLOSURE ACCORDING TO SECTION 243A OF THE AUSTRIAN COMMERCIAL CODE

- » As of December 31, 2006 the Company's share capital consists of 39,531,897 shares of common stock with no par value in bearer form. Each share represents the same pro rata amount of the aggregate share capital.
- » The Management is not aware of any agreements that restrict the voting rights or the transferability of the issued shares.
- » At the balance sheet date Apax Europe IV-A, L.P. held 11.6 percent of the voting rights of the Company. The Management is not aware of any other shareholder, who holds at least ten percent of the share capital.
- » The Company has not issued any shares with special rights to exercise control and there are no participations of employees, who do not exercise their voting rights directly.
- » The Company's regulations in regard to the appointment and discharge of the members of the management board and the supervisory board and in regard to the change of the articles follow the Austrian legal regulations.
- » The management board is authorized pursuant to Section 169 of the Austrian Stock Corporation Act, with the consent of the supervisory board, to increase the registered capital of the Company by May 12, 2011 in one or several tranches by issuing up to 5,263,165 new bearer shares of common stock. The management board is further authorized pursuant to Section 159 Subsection 3 of the Austrian Stock Corporation Act, with the consent of the supervisory board, to conditionally increase the registered capital of the Company by May 12, 2011 in one or several tranches by issuing up to 766,500 new bearer shares of common stock in connection with the grant of new stock options to the employees and members of the management board of the Company or an affiliated company. The share capital is conditionally increased by up to 2,329,970 bearer shares insofar as the employees and members of the managing board, who have been granted stock options, exercise their subscription rights.
- » Merck Sharp&Dohme Research Ltd, has the right to terminate an agreement on the sale of research services by the Company in case of a change in control over the Company.
- » A key employee of the Company has been granted a contractual termination right and the right to receive a severance payment corresponding to twice the annual salary in case of a change in control over the Company.

» 5. OPERATIONAL AND STRATEGIC OUTLOOK

Intercell's Japanese Encephalitis vaccine will continue to be a main focus of the Company in 2007 and 2008. Completion of the Biologics License Application (BLA) in the United States and initiation of the regulatory filing with the European Medicines Agency (EMA) will be key targets in the next months. In addition, the Company plans to enter into a partnership to develop and commercialize the product in the Japanese market and will seek to secure commercialization to military markets. Clinical trials in endemic countries will be initiated in order to make the vaccine also available for the population and especially the children in endemic regions. Regulatory approval and market launch in the United States and Europe are expected for 2008.

A special focus will be put on the area of hospital acquired infections. The Company expects the start of Phase II clinical trials for the *S. aureus* vaccine by its partner Merck & Co., Inc. in 2007 and enforces all steps towards a Phase II/III trial for a *Pseudomonas* vaccine, which was fully integrated to the Intercell pipeline through the recently completed full acquisition of Pelias, in which Intercell had previously held a 46 % interest. In addition, the development of further pre-clinical vaccine candidates, which are relevant in the field of hospital acquired infections, will be progressed in order to create the leading and most comprehensive franchise in this commercially attractive area.


For its therapeutic Hepatitis C vaccine candidate, Intercell expects to obtain first data from an ongoing Phase II study in chronic patients. Based on these results, the Company will define its forward strategy, which comprises options for mono- and/or combination therapies.

In the beginning of 2007, Intercell and its partner Statens Serum Institut (SSI) announced that their collaborative novel Tuberculosis vaccine was proven to be safe and very immunogenic in a Phase I clinical trial in healthy individuals. The vaccine contains Intercell's adjuvant IC31™, which proved to have an outstanding profile to stimulate a strong T-cell immune response in humans as already previously seen in a variety of animal models. In a next development step it is planned to commence Phase II trials for the vaccine.

The validation in humans of IC31™ as a vaccine adjuvant should encourage its broad commercial use in a variety of prophylactic and therapeutic vaccines. The Company therefore expects to be able to conclude further new license agreements in this area. In addition, it is planned to extend the portfolio of collaborations for bacterial vaccine candidates resulting from the Company's Antigen Identification Program (AIP®). Revenues from existing and new collaboration and licensing agreements and sales from its Japanese encephalitis vaccine after launch in 2008 should result in a further increase in revenues and lead the Company towards profitability.

Vienna, 22 March 2007

The Management Board



GERD ZETTLMEISSL, CEO



ALEXANDER VON GABAIN, CSO



WERNER LANTHALER, CFO

The consolidated financial statements of Intercell AG for the fiscal year from 1 January 2006 to 31 December 2006, the management report and the audit opinion thereon have been issued in German language in accordance with section 245a and 193 of the Austrian Commercial Code. We draw attention to the fact that this translation into English is presented for convenience purposes only and that the German wording is the only legally binding version.

- >> **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.
- >> **BIOTECHNOLOGY:** The use of living organisms or their subcellular components to develop useful products, processes or services.
- >> **B-CELL:** One of the two major types of lymphocytes (white blood cells), released from the bone marrow; B-cells 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:** An adjuvant.
- >> **IMMUNOGEN:** A substance that causes immunity; contains antigens.
- >> **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-CELL:** White blood cells; helps B-cells to make antibodies; eliminate infected cells.
- >> **TIP:** The T-cell epitope Identification Program.
- >> **VIP:** The Vaccine Improvement Program.

// // How to reach us



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- 2. Ringstrasse
- 3. Hotel Sacher
- 4. St. Stephen's Cathedral
- 5. Fiacres

- 6. Figlmüller
- 7. Graben
- 8. Vienna University
- 9. Nussdorf and Grinzing

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>> INTERNATIONALLY LOCATED IN A LIFE SCIENCE THINK TANK

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>> INTERCELL BIOMEDICAL LTD.

The manufacturing capacity is dedicated to the late stage Japanese Encephalitis vaccine and for the vaccine pipeline resulting from our bacterial Antigen Identification Research and Development Programs.

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