Release no. 8/2008

## Annual Report Announcement 2007

**Summary**: *The board of directors in Pharmexa A/S has today approved the audited annual report for the financial year 2007. The report shows a loss of approximately DKK 164.7 million which is in accordance with the company's latest published expectations.*

**Position on the balance sheet date, summary:**
2007 was a year of progress with particular focus on the further development of Pharmexa's project portfolio in cancer and infectious diseases. Among the many results achieved by Pharmexa in 2007 as previously reported in separate press releases, should be emphasized:

- Initiation of a large phase III trial of GV1001 in pancreatic cancer the United Kingdom.
- Initiation of phase III trials of GV1001 in pancreatic cancer in the United States.
- Update and extension of the license agreement with H. Lundbeck regarding a vaccine against Alzheimer's disease.
- Publication of additional promising preclinical data from the company's programs in malaria, influenza, bone disorders and HIV.
- Publication of preliminary data from the phase II trial of GV1001 in liver cancer.
- Initiation of an NIH sponsored phase I trial of the HIV vaccines EP1233 and MVA-BN Polytope.
- Publication of promising preliminary phase I data from the company's HIV vaccine EP1043.
- Pharmexa's European patent on GV1001 is upheld in an appeal case at the European Patent Office.
- Pharmexa enters into exclusive licencing agreement with Affitech concerning Pharmexa's Diabody technology.
- A private placement of shares conducted in January 2007 was fully subscribed by a number of Danish and international institutional investors, raising approximately DKK 64 million in proceeds to the company.

At the start of 2008, Pharmexa has seven product candidates in clinical development from early phase I trials to large international phase III studies. Added to this is a strong preclinical pipeline. Besides Pharmexa, these trials are financed in whole or in part, among others, by the National Cancer Research Institute (NCRI) in the UK and the National Institutes of Health (NIH) in the United States. In addition, clinical and preclinical trials are being conducted by Pharmexa's license partners H. Lundbeck, Bavarian Nordic and GENimmune.

## Significant events after the end of the financial year

- On January 8, 2008, Pharmexa publish a prospectus with the aim to raise up to DKK 345 million in a rights issue to existing shareholders.

- On February 5, 2008, Pharmexa announce the company has raised DKK 91 million in the rights issue, in difficult markets.

- On February 18, 2008, Pharmexa announce that the company launches a number of specific initiatives to protect shareholder value and to the extent possible, secure the continuation of the positive developments in the company's key projects.

## Outlook for 2008

*The following statements are forward-looking with respect to the plans, projections and future performance of the Group, each of which involves significant uncertainty. Pharmexa's actual results of operations may differ materially from the information set forth below.*

Following the board meeting February 18, 2008, Pharmexa has undertaken a number of project prioritizations aimed at reducing costs associated with research, development and administration. This is in line with the scenarios the company described in the prospectus dated January 9, 2008.

The company will focus on GV1001 as well as the universal influenza vaccine project. Externally funded projects, including the Alzheimer's project, a breast cancer vaccine, the HIV program and a malaria project, will continue according to plan. The company's project in bone diseases and an early stage cancer project will be put on hold. A number of smaller technology projects will be stopped.

These project prioritizations enable the company to reduce the headcount by 20%, corresponding to approximately 20 employees. Headcount reductions took place both in San Diego, USA and in Hørsholm, Denmark. Pharmexa A/S also has advanced plans to move to a smaller facility in the research park in Hørsholm, which will result in an approximate 40% reduction in the company's facility costs. The company expects to move by May this year.

These initiatives significantly reduce Pharmexa's running costs but still maintain most of the value in the company.

Based on the company's current activities, agreements already entered into and grants already made, revenue, interest income and other operating income in the 2008 financial year will total approximately DKK 35 million. Research and development costs are expected to total DKK 165 million, while administrative expenses are expected to be approximately DKK 20 million. The net loss, including financial income is expected to be approximately DKK 150 million.

Pharmexa's forecast for 2008 is based on its revised level of activity and assumes no new revenue generating agreements in 2008. Such new agreements or material changes to Pharmexa's strategy may therefore have a material impact on the company's forecasts for the 2008 financial year.

With the revised level of activity Pharmexa expects that the current liquidity resources can finance the operations through 2008.

In parallel with the above-mentioned cost saving initiatives, Pharmexa has retained the international investment bank HSBC Bank Plc. as financial advisor in a process to explore the company's strategic alternatives.

Provided that this exploration of strategic alternatives, against expectations, does not result in a long-lasting solution for Pharmexa, the Management may have to postpone, reduce or stop further research projects as well as preclinical and clinical studies. Such undertakings will have a negative influence on the company and at the same time cause that the Management among other things may have to write down the book value of certain assets in Pharmexa.

**Auditors' report**
Pharmexa's independent auditor, Ernst & Young Statsautoriseret Revisionsaktieselskab gives the following auditor's report on the annual report for 2007:

**To the Shareholders of Pharmexa A/S**
We have audited the Annual Report of Pharmexa A/S for the financial year ended 31 December 2007, which comprises the Statement of the Supervisory and Executive Boards on the Annual Report, the Management's Review, a summary of significant accounting policies, the income statement, balance sheet, statement of changes in equity, cash flow statement for the year then ended and notes for the Group as well as for the Parent Company. The Annual Report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies.

*The Supervisory and Executive Boards' Responsibility for the Annual Report*
The Supervisory and Executive Boards are responsible for the preparation and fair presentation of this Annual Report in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of an Annual Report that is 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 and Basis of Opinion*
Our responsibility is to express an opinion on this Annual Report based on our audit. We conducted our audit in accordance with Danish Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Annual Report is free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Annual Report. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the Annual Report, whether due to fraud or error. In making those risk assessments, the auditor consider internal control relevant to the entity's preparation and fair presentation of the Annual Report 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 the Supervisory and Executive Boards, as well as evaluating the overall presentation of the Annual Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The audit did not result in any qualification.

*Opinion*
In our opinion, the Annual Report gives a true and fair view of the Group's and the Parent Company's financial position at 31 December 2007 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year then ended in accordance

with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies.

*Emphasis of Matter*
Without qualifying our audit opinion, we wish to refer to the Management's Review, which mentions management's expectations of 2008 and the Group's capital resources and cash flow situation. Management gives an account of the process having been initiated in an attempt to seek strategic alternatives to ensure that the Group will remain a going concern and carry on its research and development projects. In the opinion of management, the measures having been initiated will lead to a solution ensuring the Group's continued operation. Against this background, management presents the Annual Report on an assumption of going concern

**Annual Report**
The printed Annual Report is expected to be available from mid March and will be sent to the shareholders upon request to the company. The Annual Report will furthermore be available on Pharmexa's homepage: www.pharmexa.com.

**Annual General Assembly**
Pharmexa A/S will hold its annual general assembly on March 31, 2008, 16:00 at Pharmexa, Kogle Allé 6, 2970 Hørsholm.

Hørsholm, March 3, 2008

**Executive Management**

Jakob Schmidt

**Board of Directors**

| | | |
|---|---|---|
| Ole Steen Andersen<br>Chairman | Jørgen Buus Lassen | Karl Olof Borg |
| Alf A. Lindberg | Michel Pettigrew | Karen Lykke Sørensen |
| Tomas Wikborg | Finn Stausholm Nielsen | |

**Additional information*:***
Jakob Schmidt, Chief Executive Officer, tel +45 4516 2525
Claude Mikkelsen, Vice President, Corporate Affairs and Communication, tel +45 4516 2525 or +45 4060 2558

*The above-mentioned statements contain forward-looking information with respect to the plans, projections and future performance of the company, each of which involves significant uncertainties. The company's actual results may differ materially from the information set forth in these statements.*

*This is an English translation of the Company's Annual Announcement for 2007 made in Danish. In case of any discrepancies between the Danish version and this English translation thereof, the Danish version shall prevail.*

## Financial highlights – Group

| (In DKK thousands except per share data) | 2007[1)] | 2006[1)] | 2005[1)] | 2004[2)] | 2003[3)] |
|---|---|---|---|---|---|
| ***Key figures*** | | | | | |
| ***Income statement*** | | | | | |
| Revenue | 10,879 | 2,040 | 2,680 | 21,344 | 20,100 |
| Research costs | 43,343 | 47,644 | 42,452 | 26,591 | 33,815 |
| Development costs | 124,481 | 117,443 | 61,931 | 51,758 | 78,080 |
| Administrative expenses | 36,029 | 32,335 | 23,946 | 19,779 | 18,325 |
| Loss before other operating items | -192,974 | -195,382 | -125,649 | -76,784 | -110,120 |
| Other operating items | 23,203 | 21,785 | 2,649 | 18,443 | -10,664 |
| Net financials | 5,060 | 4,547 | 4,933 | -199 | 684 |
| Net loss for the year | -164,711 | -169,050 | -118,067 | -58,540 | -109,200 |
| ***Balance sheet*** | | | | | |
| Intangible assets | 73,564 | 86,734 | 133,391 | 2,980 | 2,472 |
| Marketable securities and cash and cash equivalents | 76,010 | 165,260 | 331,782 | 167,497 | 50,448 |
| Total assets | 178,288 | 284,891 | 496,829 | 194,369 | 84,761 |
| Share capital | 207,272 | 376,893 | 375,999 | 163,999 | 40,999 |
| Shareholders' equity | 150,753 | 258,219 | 463,621 | 168,756 | 35,494 |
| ***Cash flow*** | | | | | |
| Cash flow from operating activities | -142,997 | -156,406 | -89,499 | -62,319 | -121,776 |
| Cash flow from investing activities | -786 | 66,924 | 731 | -131,313 | 102,773 |
| hereof purchase and sale of securities, net | - | 70,853 | 81,513 | -130,675 | 101,435 |
| hereof invested in subsidiaries | - | - | -76,733 | - | - |
| hereof invested in property, plant and equipment and intangible assets, net | -786 | -3,929 | -4,049 | -1,981 | 1,338 |
| Cash flow from financing activities | 55.231 | -3,723 | 340,719 | 187,354 | -3,666 |
| Change in cash and cash equivalents | -88,552 | -93,205 | 251,951 | -6,278 | -22,669 |
| ***Financial ratios*** | | | | | |
| Current EPS [4] (DKK 5 per share) | -4,0 | -4.5 | -4.4 | -4.3 | -19.1 |
| Average number of shares | 41,009,610 | 37,649,206 | 26,696,862 | 11,715,833 | 4,099,980 |
| Number of shares at year-end | 41,454,395 | 37,689,240 | 37,599,840 | 16,399,920 | 4,099,980 |
| Net asset value per share[4] (DKK 5 per share) | 3,6 | 6.9 | 12.3 | 10.3 | 8.7 |
| Share price at year-end | 6,45 | 17.5 | 24 | 28 | 31 |
| Price/net asset value | 1,79 | 2.56 | 1.95 | 2.72 | 3.56 |
| Assets/equity | 1,18 | 1.10 | 1.07 | 1.15 | 2.39 |
| Number of employees (full-time equivalents), year-end | 101 | 107 | 94 | 59 | 65 |
| Number of employees (full-time equivalents), average | 102 | 104 | 63 | 60 | 106 |

Note:

1) For 2005 and forward the financial highlights consist of consolidated figures for Pharmexa A/S and its two wholly-owned subsidiaries GemVax AS and Pharmexa-Epimmune Inc

2) For 2004 the financial highlights only consist of figures for Pharmexa A/S.

3) For 2003 the financial highlights consists of consolidated figures for Pharmexa A/S and the former Inoxell A/S.

4) Nominal value was at the end of 2007 written down from 10 DKK pr share to 5 DKK per share.

Ratios have been calculated in accordance with "Recommendations & Ratios 2005" from December 2004, issued by the Danish Society of Financial Analysts. Please refer to the section on definitions in "Accounting policies".

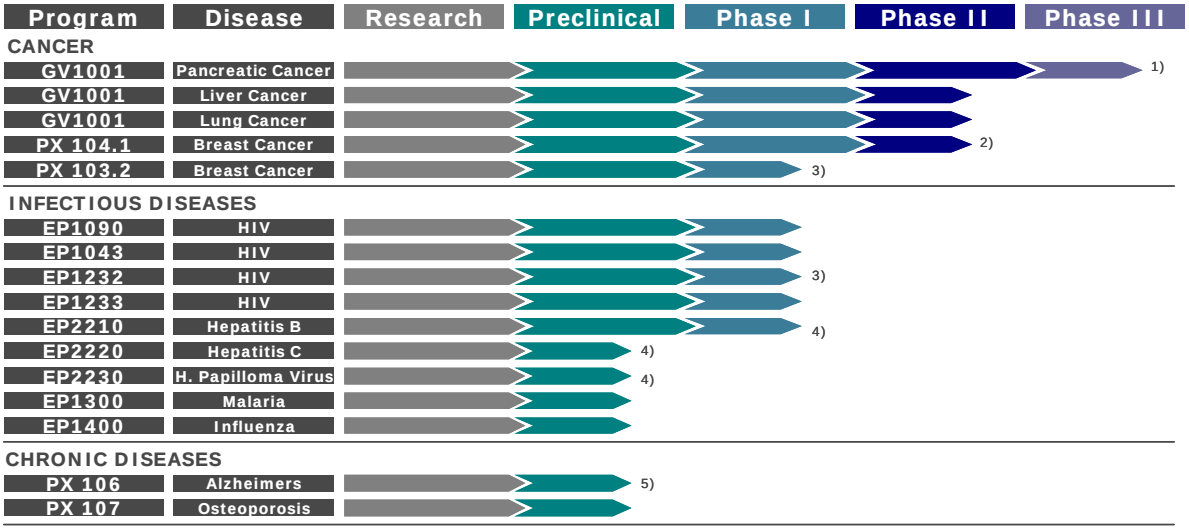
## Summary comments on the financial statements

In 2007 the Group realised revenue of DKK 10.9 million and a net loss of DKK 164.7 million. The Group's research cost amounted to DKK 43.3 million and the development cost amounted to DKK 124.5 million. The administrative expenses amounted to DKK 36.0 million. The Group's cash and cash equivalents totalled DKK 76.0 million at December 31, 2007. The financial performance in 2007 was according to the Company's latest projection set out.

Please also refer to the Management's discussion and analysis of the financial report and other reports.

## Status on the Pharmexa Group's activities

Pharmexa has built up a product candidate pipeline in cancers, chronic diseases and infectious diseases. All product candidates are characterized by targeting diseases in which there is a large need for better treatment options. Below is an overview of each of the product candidates that have reached the development stage:




1) Program covers two controlled multi-center phase III studies, the PrimoVax and Telovac studies. Results expected in 2009

2) Recruitment stopped. The Phase II study of this breast cancer vaccine showed positive immunological results but did not meet the specific goals for the study as regards tumor effects, and the trial was therefore stopped.

3) Partnered with Bavarian Nordic

4) Partnered with Innogenetics

5) Partnered with H. Lundbeck

As part of Pharmexa's strategy to strengthen its active immunotherapy technology platform, the company has continued to develop its proprietary recombinant protein vaccine technology, or AutoVac™, and through the acquisition of GemVax and a substantial portion of the assets and activities of Epimmune Inc., now embodied in Pharmexa-Epimmune, peptide- and polyepitope-based technologies. At the same time, Pharmexa also acquired additional technologies, in particular PADRE® and EIS™, which the company believes will not only enhance its research and development abilities but may also provide opportunities for revenue generation through licensing to third parties.

Pharmexa believes that its technologies, including those developed by Pharmexa A/S and those acquired through GemVax and Pharmexa-Epimmune, integrated together, strengthen the company's competences and opportunities in the vaccine and immunotherapy field.

<u>GV1001: A Therapeutic Vaccine against Cancer</u>
GV1001 is a peptide vaccine which activates the immune system so that it recognizes and kills cancer cells. GV1001 targets an enzyme called telomerase. Telomerase is rarely found in normal cell types but is over-expressed in most cancer cells. In scientific circles, telomerase activity is considered a key factor in the process whereby cancer cells loose their normal mortality, a common feature for all cancers. GV1001 could therefore theoretically turn out to be a universal cancer vaccine, which is reflected by Pharmexa's broad development program for GV1001.

GV1001 has achieved orphan drug status for the treatment of pancreatic cancer both in Europe and in the United States.

Pharmexa holds all rights to GV1001.

*GV1001 in pancreatic cancer – Phase III*

Pharmexa has initiated Phase III clinical studies with GV1001 in patients with pancreatic cancer. GV1001 is tested in two large-scale Phase III studies of a total of 1,630 patients called the PrimoVax study and the Telovac study:

The PrimoVax study is sponsored by Pharmexa. The study includes 520 patients with pancreatic cancer, and 77 hospitals in ten European countries and Australia and the United States are enrolling patients for this study according to plans. Pharmexa considers the PrimoVax study to be a pivotal study which in case of a satisfactory result can lead to a registration of GV1001 for the treatment of pancreatic cancer in Europe, Australia and the United States in 2009/2010.

In the PrimoVax study, GV1001 is tested side by side with the current standard treatment gemcitabine (Gemzar®), a chemotherapeutic agent approved for the treatment of pancreatic cancer. The patients in the PrimoVax study will be randomly divided into two equal-sized groups:

- 260 patients receiving the standard treatment with gemcitabine chemotherapy; and
- 260 patients receiving GV1001. If/when the condition of these patients deteriorates, treatment with gemcitabine will be added.

Thus, the PrimoVax study is in continuation of a previous Phase I/II clinical study with GV1001 which showed that treatment with GV1001 as a monotherapy prolonged patient survival, compared to the effect previously seen with gemcitabine. The primary endpoint in the PrimoVax study is survival, and the secondary endpoints include time to progression and safety. Results are expected in the second half of 2009.

The Telovac study is a large Phase III study designed and managed by the Pancreas Cancer Sub-Group, a department of the National Cancer Research Institute in the United Kingdom which is co-financing the study. The study includes 1,110 patients and is currently enrolling patients from 34 hospitals in the United Kingdom.

In the Telovac study, GV1001 will be tested together with a combination of the chemotherapeutic agents gemcitabine (Gemzar®) and capecitabine (Xeloda®). 1,110 patients with inoperable pancreatic cancer will be randomly divided into one of the three arms:

- 370 patients will receive gemcitabine and capecitabine chemotherapy in a standard treatment;
- 370 patients will initially be treated with gemcitabine and capecitabine for eight weeks, after which they will be treated with GV1001; and
- 370 patients will be treated with gemcitabine and capecitabine concurrently with GV1001.

The primary endpoint is survival, and the secondary endpoints include time to progression and safety.

The Telovac study will be co-financed by Cancer Research UK (CRUK) and conducted by the CRUK's Liverpool Cancer Trials Unit. Pharmexa will pay for vaccine for the study, along with a number of the costs related to monitoring and data collection. The pharmaceutical company Roche is sponsoring Xeloda® in the study. Results are expected in 2011.

*GV1001 in liver cancer – Phase II*
The HeptoVax trial is a Phase II, open-label study designed to evaluate the safety and efficacy of GV1001 in advanced hepato-cellular carcinoma ("HCC" or "liver cancer"). The study has enrolled 40 patients from three centers in Spain, France and Germany. Final results from the

study are expected in mid-2008.

The HeptoVax study measures objective tumor response (tumor size and number) and time to progression. Approximately half of the patients with advanced stage liver cancer die within a year and survival benefits in the trial will also be measured.

*GV1001 in lung cancer – Phase II*
The Rigshospitalet-Radiumhospitalet in Norway has started a Phase II study with GV1001 in non-small cell lung cancer (NSCLC). The study designed and managed by the Cancer Clinic at Rigshospitalet-Radiumhospitalet in Oslo, Norway, in collaboration with the St. Olav Hospital in Trondheim, Norway. Pharmexa has agreed to supply GV1001 for the study, which is partly funded by the Research Council of Norway.

The study is an open label exploratory Phase II study in 20 patients with stage IIIA and stage IIIB non-small cell lung cancer.

The primary endpoint in the study is immune response measured by specific T-cell responses and DTH (skin reaction). Secondary endpoints include safety and time to progression.

Results from the study are expected in the first half of 2009.

PX104.1: A Therapeutic Vaccine against Breast Cancer – Phase II
In August 2006, Pharmexa announced that it had stopped additional recruitment of patients to a Phase II study of the breast cancer vaccine PX 104.1 since, based on a review of preliminary data, it was unlikely that the study would meet its primary endpoint if it was finalized, i.e. objective tumor response. Six out of the seven patients in total who received the four initial immunizations, developed clear antibody titers. Thus, the vaccine is clearly biologically active and capable of generating a significant immune response to the HER-2 receptor, even in these critically ill breast cancer patients. Pharmexa interprets this result as a validation of the AutoVac™ technology platform. Pharmexa continues to investigate the future potential for PX104.1.

No serious adverse events related to the vaccine have been reported in the study. The study had therefore at this time met its most important secondary endpoints, i.e. immune response and safety.

Pharmexa holds all rights to PX104.1.

PX103.2: A Therapeutic Vaccine against Breast Cancer – Phase I
PX103.2, also called HER-2 DNA AutoVac™, is a vaccine designed to treat breast cancer by stimulating the immune system to form killer cells to combat cancer cells. A Phase I/II clinical study involving 27 patients was successfully completed in December 2002. HER-2 (Human Epidermal Growth Factor Receptor 2) is a validated cancer target. Approximately 20-30% of women diagnosed with breast cancer overexpress the HER-2 protein on tumor cells, and this over-expression is generally associated with a more aggressive progression of the disease and a poorer prognosis than in HER-2-negative patients. HER-2 is also overexpressed in many other types of cancer.

Pharmexa and BN ImmunoTherapeutics, a wholly-owned subsidiary of Bavarian Nordic, signed an agreement in March 2005 under which BN ImmunoTherapeutics obtained a global non-exclusive license to formulate the HER-2 DNA AutoVac™ vaccine in Bavarian Nordic's patented MVA-BN® vector. The agreement includes milestone and royalty payments to Pharmexa. Bavarian Nordic has announced that it has started two phase I studies with the combination of the HER-2 DNA AutoVac™ vaccine and the MVA-BN® vector (in Bavarian Nordic's terminology

"MVA-BN® HER2"). Results from these two studies are expected in the first half of 2008.

PX106: A Therapeutic Vaccine against Alzheimer's Disease

Since 2000, Pharmexa has had a research and development collaboration with H. Lundbeck in which Pharmexa's AutoVac™ technology has been used to develop a vaccine as a therapy for Alzheimer's disease. Existing therapies for Alzheimer's disease are currently limited to symptom relief, so there is a great need for new and improved drugs.

Earlier in the collaboration, Pharmexa obtained proof of concept of the vaccine in animal models. This means that, used on the protein target causing Alzheimer's disease in relevant animal models, the AutoVac™ technology had the desired effect of reducing the development of amyloid plaques in the brains of mice. On the basis of these results, H. Lundbeck started preclinical development of the project, during which time a limited number of AutoVac™ molecules were studied in greater detail with a view to the final selection of a development molecule and back-ups for clinical trials in patients.

H. Lundbeck holds an exclusive global license for PX106 for the treatment of Alzheimer's disease. Pharmexa will receive milestone payments and royalties on any future sales of the vaccine. H. Lundbeck may unilaterally terminate the agreement without cause. In December 2007, H. Lundbeck and Pharmexa A/S expanded and updated the original license agreement from April 2000.

EP1090, EP1043 + 1090, EP1233 and EP1232 (MV-BN32): Vaccines against HIV

Pharmexa is currently conducting Phase I trials in connection with several vaccines directed against the HIV virus, either preventatively or therapeutically, which were initially developed through Pharmexa-Epimmune. Several of these trials are currently being funded principally through various divisions of the National Institutes of Health (NIH) in the United States. Based on the results from these studies, Pharmexa will evaluate how best to fund such further development, including potentially through grants.

*EP1090: A therapeutic vaccine directed against HIV*

EP1090 is a polyepitope-based DNA vaccine directed against HIV, that is designed to activate the immune system's CTL response to attack HIV-infected cells. Pharmexa hold all the rights to EP1090.

In two previous Phase I trials, Pharmexa established safety and tolerance. The company has initiated a Phase Ib study with EP1090. In this trial involving HIV-infected volunteers, EP1090 will be delivered using the BioJect 2000 needle-free device to permit the company to study whether that method of delivery might improve the immunogenicity of EP1090. Pharmexa currently anticipate that the final results from this trial will be available in early 2008.

*EP1043 + EP1090: A preventive vaccine directed against HIV*

EP1043 is a polyepitope-based recombinant protein vaccine against HIV that is designed to activate the immune system's HTL response and to be used in combination with vaccines that activate the immune system's CTL response, such as EP1090.

The EP1043 + EP1090 combination is currently being tested in a Phase I trial sponsored by the Division of AIDS of the National Institutes of Health (NIH) in the United States. The study is called HVTN-064. Eighty-four volunteers are enrolled in the study in the United States. Pharmexa hold all the rights to EP1043 as well as to EP1090. Preliminary data published by HVTN show that EP1043 is safe, well tolerated and immunogenic.

*EP1233 and EP1232 (MVA-BN Polytope): A preventive vaccine directed against HIV*

EP1233 is a polyepitope-based DNA vaccine that is designed to act against HIV by activating

both HTL and CTL responses. An epitope-matched MVA (modified vaccinia ankara) viral vector vaccine (jointly owned by Pharmexa and Bavarian Nordic), EP 1232, is also under development for use in combination with EP1233.

The research and development costs associated with EP1233 and EP1232 are principally funded through a grant from the National Institute of Allergy and Infectious Diseases (NIAID) in the United States. Under this grant, Pharmexa is leading a consortium consisting of Bavarian Nordic, SRI International and Althea Technologies. The study is called HVTN-67. Pharmexa and Bavarian Nordic hold the commercial rights to EP1233 and EP1232.

Two additional Phase I studies funded by Bavarian Nordic with EP1232 in healthy volunteers and HIV-infected patients, respectively, have been initiated in Germany.

PX107: A Therapeutic Vaccine against Bone Disorders

In a number of metabolism-related bone disorders, changes are seen in the concentration of the receptor activator of the NF-kappaB ligand (RANKL). RANKL is an important regulator in bone resorption and a therapeutic target for diseases associated with bone destruction such as osteoporosis, bone metastases, rheumatoid arthritis and metabolism-related bone disorders. Preclinical studies by Pharmexa and others suggest that vaccination against the RANKL protein using the AutoVac™ method may be effective in the control of bone loss and inflammation in connection with certain diseases and other conditions. Pharmexa is in the process of developing PX107 as a human RANKL AutoVac™ vaccine to be used against bone disorders. The vaccine is intended to inhibit the rate of naturally recurring bone resorption in cases where the rate of natural bone formation has lessened, as in, for example, osteoporosis. The aim is to restore a balance between bone resorption and bone formation so that normal bone density is restored and maintained.

Pharmexa hold all rights to PX107. The project was put on hold following the announcement on February 18, 2008 where the company decided to prioritize the project portfolio to reduce costs.

## Financial review 2007

### Management's discussion and analysis of the financial report and other reports

***Revenue***
Revenue in the Group totalled DKK 10.9 million in 2007, against DKK 2.0 million in 2006, representing an increase of 445%. Revenue in 2007 consisted of funding provided under collaborative agreements with H. Lundbeck.

***Research costs***
Research costs totalled DKK 43.3 million in 2007, against DKK 47.6 million in 2006, representing a decrease of 9%. The decrease is primarily due to the RANKL project, which has entered the development stage in 2007.

***Development costs***
Development costs totalled DKK 124.5 million in 2007, against DKK 117.4 million in 2006, representing an increase of 6%. The increase is primarily due to increased activity of the phase III trials TeloVac and PrimoVax and the clinical programs on malaria and HIV in Pharmexa-Epimmune, where the Group receives grants from NIH.

***Administrative expenses***
In 2007, administrative expenses increased by 11% to DKK 36.0 million, compared with DKK 32.3 million in 2006. The increase is primarily due to costs related to the Company's financing.

***Other operating items***
Other operating items in 2007 amounted to net DKK 23.2 million, compared to net DKK 21.8 million in 2006. The item primarily consists of grants from public authorities and the largest part is realized in Pharmexa-Epimmune.

***Net financials***
Net financials amounted to net DKK 5.1 million in 2007, compared with DKK 4.5 million in 2006. The Group realised interest income and capital gains of DKK 6.4 million primarily from cash deposits. The Company's cash equivalents totalled DKK 76.0 million at December 31, 2007, against DKK 165.3 million in 2006. Financial expenses came at DKK 1.3 million in 2007 compared to DKK 3.9 million in 2006. The expenses primarily consist of exchange losses of DKK 0.7 million and interest of DKK 0.6 million on Pharmexa's loan in Vækstfonden.

***Net loss for the year and follow-up on expectations previously announced***
The Group reported a net loss of DKK 164.7 million in 2007, compared to a net loss of DKK 169.1 million in 2006. The financial performance in 2007 was in accordance with the Company's latest projection set out.

***Balance sheet items***
The Group's balance sheet total at December 31, 2007 was DKK 178.3 million. Intangible assets accounted for DKK 73.6 million, cash and cash equivalents amounted to DKK 76.0 million, and shareholders' equity amounted to DKK 150.8 million versus DKK 187.7 million in the parent company. The difference is due to investments in subsidiaries being included at cost price adjusted for write-downs.

***Cash flow statement***
The consolidated net cash flow for 2007 is negative at DKK 88.6 million, compared to DKK 93.2 million in 2006. Cash flows primarily consist of a loss on operations and a DKK 64 million capital increase in February 2007.

***Capital resources and liquidity***
Like other biotechnology companies, Pharmexa has recorded a loss for a number of years and is therefore dependent on continued capital contributions until the Company's activities begin to yield a profit. Pharmexa reported a net loss of DKK 164.7 million in 2007 and had cash and cash equivalents totalling DKK 76.0 million at the end of the year. On February 5, 2008, Pharmexa completed a share issue with net proceeds of DKK 80.2 million. With the revised level of activity Pharmexa expects that the current liquidity resources can finance the operations in 2008.

**Outlook for 2008**
Based on the company's current activities, agreements already entered into and grants already made, revenue, interest income and other operating income in the 2008 financial year will total approximately DKK 35 million. Research and development costs are expected to total DKK 165 million, while administrative expenses are expected to be approximately DKK 20 million. The net loss, including financial income is expected to be approximately DKK 150 million.

Pharmexa's forecast for 2008 is based on its revised level of activity and assumes no new revenue generating agreements in 2008. Such new agreements or material changes to Pharmexa's strategy may therefore have a material impact on the company's forecasts for the 2008 financial year.

Please see page 2 of this annual report release for further information regarding outlook for 2008.

**Related-party transactions**
There were no significant related-party transactions during the year except normal business with subsidiaries and remuneration to the management.

**Environmental impact**
No significant environmental impact is associated with the activities of Pharmexa.

**Substantial post balance sheet events**
On January 8, 2008, Pharmexa publish a prospectus with the aim to raise up to DKK 345 million in a rights issue to existing shareholders.

On February 5, 2008, Pharmexa announce the company has raised DKK 91 million in the rights issue, in difficult markets.

On February 18, 2008, Pharmexa announce that the company launches a number of specific initiatives to protect shareholder value and to the extent possible, secure the continuation of the positive developments in the company's key projects.

## Accounting policies

***Basis of accounting***
The annual report of the Pharmexa Group for 2007 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies.

The accounting policies are consistent with those of last year with the exception of the implementation of new/updated standards which are obligatory for reporting years commencing on January 1, 2007.

## Financial statements

### Income statement for the period January 1 – December 31

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | DKK'000 | DKK'000 | DKK'000 | DKK'000 |
| **Revenue** | **10,879** | **2,040** | **10,879** | **441** |
| Research costs | -43,343 | -47,644 | -22,220 | -30,590 |
| Development costs | -124,481 | -117,443 | -99,109 | -76,140 |
| Administrative expenses | -36,029 | -32,335 | -27,495 | -25,305 |
| **Loss before other operating income/expenses** | **-192,974** | **-195,382** | **-137,945** | **-131,594** |
| Other operating income | 23,203 | 21,855 | 4,902 | - |
| Other operating expenses | 0 | -70 | 0 | -32 |
| **Operating loss** | **-169,771** | **-173,597** | **-133,043** | **-131,626** |
| Write-down of investments in subsidiaries | - | - | -66,000 | - |
| Other financial income | 6,423 | 8,459 | 9,264 | 12,014 |
| Other financial expenses | -1,363 | -3,912 | -8,755 | -11,990 |
| **Loss before tax** | **-164,711** | **-169,050** | **-198,534** | **-131,602** |
| Income taxes | 0 | 0 | 0 | 0 |
| **Net loss for the year** | **-164,711** | **-169,050** | **-198,534** | **-131,602** |
| Earnings and diluted earnings per share | -4.0 | -4.5 | | |

### Appropriation of loss

Recommended appropriation:

| | Parent company | |
|---|---|---|
| | **2007** | **2006** |
| | DKK'000 | DKK'000 |
| Profit and loss account at January 1 | -64,664 | 0 |
| Net loss for the year | -198,534 | -131,602 |
| Equity postings | 236,403 | 66,938 |
| Profit and loss account at December 31 | -26,795 | -64,664 |

## Balance sheet at December 31
## Assets

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | DKK'000 | DKK'000 | DKK'000 | DKK'000 |
| Licences and rights | 1,188 | 1,776 | 1,188 | 1,776 |
| Patents, trade marks and technologies | 72,376 | 84,958 | - | - |
| **Intangible assets** | **73,564** | **86,734** | **1,188** | **1,776** |
| Plant and machinery | 5,803 | 8,993 | 4,275 | 7,063 |
| Other fixtures and fittings, tools and equipment | 2,616 | 3,466 | 2,129 | 2,501 |
| Leasehold improvements | 1,749 | 2,414 | 1,089 | 1,469 |
| Prepayments for assets under construction | 0 | 578 | 0 | 365 |
| **Property, plant and equipment** | **10,168** | **15,451** | **7,493** | **11,398** |
| Investments in subsidiaries | - | - | 117,029 | 94,711 |
| Receivable from group enterprise | - | - | - | 71,613 |
| Deposit | 5,260 | 5,828 | 2,866 | 3,011 |
| **Financial non-current assets** | **5,260** | **5,828** | **119,895** | **169,335** |
| **Non-current assets** | **88,992** | **108,013** | **128,576** | **182,509** |
| Receivables from group enterprises | - | - | 5,314 | 106 |
| Other receivables | 10,109 | 6,877 | 2,769 | 1,566 |
| Prepayments | 3,177 | 4,741 | 2,982 | 4,315 |
| **Receivables** | **13,286** | **11,618** | **11,065** | **5,977** |
| **Cash and cash equivalents** | **76,010** | **165,260** | **71,607** | **155,404** |
| **Current assets** | **89,296** | **176,878** | **82,672** | **161,381** |
| **Assets** | **178,288** | **284,891** | **211,248** | **343,890** |

## Balance sheet at December 31
## Equity and liabilities

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | DKK'000 | DKK'000 | DKK'000 | DKK'000 |
| Share capital | 207,272 | 376,893 | 207,272 | 376,893 |
| Share premium | 0 | 0 | 0 | 0 |
| Profit and loss account | -63,765 | -118,833 | -26,795 | -64,664 |
| Other shareholders' equity | 7,246 | 159 | 7,246 | 9,595 |
| **Shareholders' equity** | **150,753** | **258,219** | **187,723** | **321,824** |
| Loan, Vækstfonden | 1,148 | 4,847 | 1,148 | 4,847 |
| Finance lease commitments | - | 151 | - | 151 |
| **Non-current liabilities** | **1,148** | **4,998** | **1,148** | **4,998** |
| Loan, Vækstfonden | 4,975 | 4,538 | 4,975 | 4,538 |
| Finance lease commitments | 151 | 180 | 151 | 180 |
| Trade payables | 9,259 | 6,715 | 6,928 | 5,268 |
| Other payables | 12,002 | 10,241 | 10,323 | 7,082 |
| **Current liabilities** | **26,387** | **21,674** | **22,377** | **17,068** |
| **Liabilities** | **27,535** | **26,672** | **23,525** | **22,066** |
| **Equity and liabilities** | **178,288** | **284,891** | **211,248** | **343,890** |

## Statement of changes in equity

| *Group* | Number of shares | Share capital DKK'000 | Share premium DKK'000 | Profit and loss account DKK'000 | Share-based payment DKK'000 | Conditional shareholders' equity DKK'000 | Exchange adjustments DKK'000 | Total DKK'000 |
|---|---|---|---|---|---|---|---|---|
| **Shareholders' equity at January 1, 2007** | **37,689,240** | **376,893** | **0** | **-118,833** | **9,595** | **0** | **-9,436** | **258,219** |
| Net loss for the year | | | | -164,711 | | | | -164,711 |
| Exchange adjustments, foreign subsidiaries | | | | | | | -7,187 | -7,187 |
| Comprehensive income | | | | -164,711 | | | -7,187 | -171,898 |
| Transfer to cover loss | | | -26,356 | 26,356 | | | | 0 |
| Capital increase by way of a share issue | 3,765,155 | 37,651 | 26,356 | | | | | 64.007 |
| Write down of share capital | | -207,272 | | 207,272 | | | | 0 |
| Expenses, capital increase | | | | -4,074 | | | | -4,074 |
| Expensed value of warrants granted | | | | 6,849 | -2,350 | | | 4,499 |
| **Shareholders' equity at December 31, 2007** | **41,454,395** | **207,272** | **0** | **-47,141** | **7,245** | **0** | **-16,623** | **150,753** |
| **Shareholders' equity at January 1, 2006** | **37,599,84** | **375,999** | **49,561** | **-** | **4,703** | **33,000** | **358** | **463,621** |
| Net loss for the year | | | | -169,050 | | | - | -169,050 |
| Exchange adjustments, foreign subsidiaries | | | | - | | | -9,794 | -9,794 |
| Comprehensive income | | | | -169,050 | | | -9,794 | -178,844 |
| Transfer to cover loss | - | - | -50,217 | 50,217 | - | - | - | 0 |
| Capital increase by way of a share issue | 89,400 | 894 | 805 | - | - | - | - | 1,699 |
| Conditional shareholders' equity | - | - | - | - | - | -33,000 | - | -33,000 |
| Expenses, capital increase | - | - | -149 | - | - | - | - | -149 |
| Expensed value of warrants granted | - | - | - | - | 4,892 | - | - | 4,892 |
| **Shareholders' equity at December 31, 2006** | **37,689,240** | **376,893** | **0** | **-118,833** | **9,595** | **0** | **-9,436** | **258,219** |

## Statement of changes in equity - continued

| *Parent company* | Number of shares | Share capital DKK'000 | Share premium DKK'000 | Profit and loss account DKK'000 | Share-based payment DKK'000 | Conditional share-holders' equity DKK'000 | Total DKK'000 |
|---|---|---|---|---|---|---|---|
| **Shareholders' equity at January 1, 2007** | **37,689,240** | **376,893** | **0** | **-64,664** | **9,595** | **0** | **321,824** |
| Net loss for the year | | | | -198,534 | | | -198,534 |
| Comprehensive income | | | | -198,534 | | | -198,534 |
| Transfer to cover loss | - | - | -26,356 | 26,356 | - | - | 0 |
| Capital increase by way of a share issue | 3,765,155 | 37,651 | 26,356 | - | - | - | 64,007 |
| Write down of share capital | - | -207,272 | - | 207,272 | - | - | 0 |
| Expenses, capital increase | - | - | - | -4,074 | - | - | -4,074 |
| Expensed value of warrants granted | - | - | - | 6,849 | -2,350 | - | 4,499 |
| **Shareholders' equity at December 31, 2007** | **41,454,395** | **207,272** | **0** | **-26,795** | **7.,45** | **0** | **187,722** |
| **Shareholders' equity at January 1, 2006** | **37,599,840** | **375,999** | **66,282** | **-** | **4,703** | **33,000** | **479,984** |
| Net loss for the year | - | | | -131,602 | | | -131,602 |
| Comprehensive income | - | | | -131,602 | | | -131,602 |
| Transfer to cover loss | - | - | -66,938 | 66,938 | - | - | 0 |
| Capital increase by way of a share issue | 89,400 | 894 | 805 | - | - | - | 1,699 |
| Conditional shareholders' equity | - | - | - | - | - | -33,000 | -33,000 |
| Expenses, capital increase | - | - | -149 | - | - | - | -149 |
| Expensed value of warrants granted | - | - | - | - | 4,892 | - | 4,892 |
| **Shareholders' equity at December 31, 2006** | **37,689,240** | **376,893** | **0** | **-64,664** | **9,595** | **0** | **321,824** |

## Analysis of movements in the share capital:

| | **2007** DKK'000 | **2006** DKK'000 | **2005** DKK'000 | **2004** DKK'000 | **2003** DKK'000 |
|---|---|---|---|---|---|
| **Share capital at January 1** | **376,893** | **375,999** | **163,999** | **40,999** | **40,999** |
| Capital increase | 37,651 | 894 | 212,000 | 123,000 | - |
| Write-down of share capital | -207,272 | - | - | - | - |
| **Share capital at December 31** | **207,272** | **376,893** | **375,999** | **163,999** | **40,999** |

Cash flow statement for the period January 1 – December 31

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | DKK'000 | DKK'000 | DKK'000 | DKK'000 |
| Net loss for the year | -164,711 | -169,050 | -198,534 | -131,602 |
| Adjustments | 12,196 | 14,205 | 74,905 | 11,350 |
| Changes in working capital | 4,458 | -7,613 | 2,745 | 6,107 |
| Cash flow from operating activities before net financials | -148,057 | -162,458 | -120,884 | -114,145 |
| Interest received etc. | 6,423 | 8,459 | 5,813 | 8,402 |
| Interest paid etc. | -1,363 | -2,407 | -1,208 | -2,652 |
| **Cash flow from operating activities** | **-142,997** | **-156,406** | **-113,863** | **-108,395** |
| Investments in group enterprises | - | - | -22,319 | -25,680 |
| Loans to group enterprises | - | - | - | - |
| Additions of intangible assets | - | -97 | - | - |
| Additions of property, plant and equipment | -788 | -3,832 | -429 | -2,874 |
| Disposals of property, plant and equipment | 2 | - | - | - |
| Disposals of marketable securities | | 70,853 | - | 70,853 |
| **Cash flow from investing activities** | **-786** | **66,924** | **-22,748** | **42,299** |
| Net proceeds, share issue | 59,934 | - | 59,934 | - |
| Net proceeds, warrant exercise | - | 1,550 | - | 1,550 |
| Repayments, loans | -4,537 | -5,100 | -4,537 | -5,100 |
| Repayments, finance leases | -166 | -173 | -166 | -173 |
| **Cash flow from financing activities** | **55,231** | **-3,723** | **55,231** | **-3,723** |
| **Change in cash and cash equivalents** | **-88,552** | **-93,205** | **-83,797** | **-69,819** |
| Unrealised currency gain/loss | -698 | -1,859 | - | - |
| Cash and cash equivalents at January 1 | 165,260 | 260,324 | 155,404 | 225,223 |
| **Cash and cash equivalents at December 31** | **76,010** | **165,260** | **71,607** | **155,404** |
| **Analysis of cash and cash equivalents:** | | | | |
| Cash and demand deposits | 20,143 | 25,691 | 18,423 | 20,404 |
| Fixed-term deposits | 55,867 | 139,569 | 53,184 | 135,000 |
| | **76,010** | **165,260** | **71,607** | **155,404** |