



## ARPIDA ANNOUNCES FULL YEAR 2005 FINANCIAL RESULTS

**Muenchenstein / Basel, Switzerland, 2 March, 2006.** Arpida Ltd (SWX: ARPN), a Swiss anti-infectives company, announced today its financial results for the year ending 31 December 2005.

### 2005 Highlights

- Excellent pipeline progress:
  - Lead compound, intravenous iclaprim, received US FDA fast-track product designation and is in a global Phase III clinical programme for complicated skin and skin structure infections (cSSSI)
  - Positive results from a Phase I lung study with intravenous iclaprim paving the way for its development in nosocomial (hospital-acquired) pneumonia, a second major indication
  - IND approved by the US FDA for oral iclaprim and initiation of Phase I programme
  - Confirmation of the potential of AR-709 for the treatment of respiratory tract infections in the community based on *in vitro* microbiological studies
- Cash resources of CHF 122.4 million (€79 million) at 31 December 2005, which provides strategic flexibility to progress clinical product candidates towards commercialisation
- Initial Public Offering on Main Segment of the SWX Swiss Exchange raising CHF97.2million (€63 million)
- Prof. John G. Bartlett, a leading authority on infectious diseases, appointed to Scientific Advisory Board
- Dr Nicholas Coppard appointed as Head of Development

### Post year-end events

- Safety and bioavailability data from two Phase I studies with oral iclaprim confirm potential in 'intravenous to oral' switch therapy and outpatient treatment
- Chief Operating Officer and Director Dr. Dieter Gillissen, one of Arpida's founders, to retire in 2006

Dr Khalid Islam, President and CEO of Arpida, said: "2005 was a very productive year. With our IPO completed in May 2005, we now have sufficient cash to allow the strategic flexibility necessary to advance our clinical and preclinical programmes and bring iclaprim to the market. The global Phase III programme of intravenous iclaprim is progressing as planned; the promising results of our lung study have encouraged us to pursue the development of intravenous iclaprim in the second indication of nosocomial pneumonia; and we are conducting Phase I studies with an oral formulation of iclaprim to evaluate its safety and tolerability. Our preclinical developments continue to progress well too, with AR-709 expected to enter into the clinic late 2006. Based on our unique expertise in bacterial resistance, our strong therapeutic pipeline and a strengthened team, Arpida is well positioned to bring solutions to overcome the growing global problem of antibiotic resistance."

## REPORT FOR FULL YEAR 2005

### Financial Review

Arpida has made good progress during 2005. The Company's initial public offering on the SWX Swiss Exchange in May raised CHF97.2 million (€63 million). These new funds, in addition to existing cash resources and careful cost management, will be sufficient to allow the strategic flexibility necessary for Arpida to advance its clinical and preclinical programmes and bring iclaprim to the market.

Since May 4, 2005 the Arpida share has been listed on the Main Segment of the SWX Swiss Exchange under the symbol ARPN. The Company's IPO was one of the largest in European biotech in 2005. Despite tough market conditions, Arpida raised the full amount that it sought: CHF 97.2 million (before expenses). After a difficult first day of trading, the share price recovered and ended the year at CHF 15.30 equating to a market capitalisation of CHF 250.5 million.

During the first months of 2006, the share price has risen further and at 24 February it stood at CHF 21.85 equating to a market capitalisation of CHF 357.7 million.

In financial terms, the year evolved as expected. Careful cost management has kept the cash burn low despite the fact that the global Phase III ASSIST clinical programme for intravenous iclaprim was initiated and is progressing as planned. At year-end 2005 the cash balance was CHF 122.4 million.

### Key financial indicators

(CHF million)	2005	2004
Research and development expenses	(29.2)	(17.6)
Management and general expenses	(7.3)	(5.0)
Net result	(35.1)	(23.1)
Cash at year-end	122.4	68.2
Equity at year-end	130.9	75.6

### Results

In 2005, Arpida did not generate any revenues while in 2004 revenues of CHF 58,360 were recorded from a fee-for-service transaction.

Arpida A/S was acquired on October 14, 2004 and its costs in 2004 were only reflected for the remaining 2½ months until December 31, 2004. For 2005, the costs for the full year are included in the consolidated result, leading to higher research and development expenses as well as higher general and management expenses in 2005.

Research expenses relate to the costs of discovery efforts, including but not limited to costs for research staff, consumables and rent for laboratory space used. Furthermore, research expenses include other direct costs such as purchases of compound libraries or costs incurred on external screening of Arpida's compounds. Development expenses primarily relate to costs incurred in conjunction with pre-clinical and clinical trials.

Research and development expenses increased from CHF 17.6 million in 2004 to CHF 29.2 million in 2005, primarily due to (i) the increased spending for pre-clinical and clinical trials (in particular the phase III clinical trials with intravenous iclaprim), (ii) the hiring of additional

staff, largely in the clinical development team and (iii) the effects of the full-year consolidation in 2005 of Arpida A/S.

Management and general expenses increased from CHF 5.0 million in 2004 to CHF 7.3 million in 2005, due again in part to the full-year consolidation of Arpida A/S and partly to the fact that additional administrative, corporate and senior management functions were filled in conjunction with the ongoing clinical trials and the listing of Arpida AG.

As a result, the operating loss for the year 2005 amounts to CHF 36.5 million (2004: CHF 22.5 million). Taking into consideration the positive effect of the financial result of CHF 1.4 million in 2005, the net loss for 2005 amounts to CHF 35.0 million (2004: CHF 23.2 million).

### **Balance sheet and cash flow**

On a net basis, cash and cash equivalents at hand increased from CHF 68.2 million as of December 31, 2004 to CHF 122.4 million as of December 31, 2005. On the one hand, the cash position increased by the CHF 97.2 million (CHF 89.3 million after capital increase related expenses) raised in the IPO of May 4, 2005. On the other hand, operating activities required cash resources of CHF 33.4 million, up from CHF 21.1 million in 2004.

The increase in the equity position in 2005 by CHF 55.3 million to CHF 130.9 million at year-end was largely due to the two factors described above.

The strong cash position enables the Company to preserve its strategic flexibility to progress the development of its portfolio of antibiotics. In particular, it will allow the company to continue the clinical development of both intravenous and oral iclaprim independently towards commercialisation. This, however, does not preclude the possibility of partnering under certain circumstances where such an opportunity is deemed to be in the best interests of shareholders in terms of maximising the value of our compounds.

### **Pipeline Development**

Arpida currently has one of the strongest and broadest pipelines of anti-infectives that are designed to overcome the growing problem of bacterial resistance. During the past 12 months, Arpida has achieved several important milestones in the development of its portfolio of antibiotic candidates.

#### ***Intravenous iclaprim – Phase III Trials in Complicated Skin and Skin Structure Infections***

Arpida's lead product candidate, iclaprim, is a potent broad-spectrum bactericidal antibiotic that targets severe bacterial infections that require hospital treatment, including those caused by difficult-to-treat multidrug-resistant bacteria, such as MRSA. Nosocomial (hospital-acquired) bacterial infections represent a market worth USD 8 billion.

After successful completion of Phase II clinical trials, Arpida received clearance in March 2005 from the FDA to include US centres in the Phase III clinical trials for intravenous iclaprim for its first indication: complicated Skin and Skin Structure Infections (cSSSI).

The global Phase III ASSIST studies (Arpida's Skin and skin Structure Infection Studies), which consist of two trials, are designed to compare the efficacy and safety of iclaprim with that of market leader linezolid (marketed by Pfizer as Zyvox®).

In August 2005, the FDA granted fast-track status to intravenous iclaprim for the treatment of cSSSI, citing the following rationale:

- Iclaprim is being developed to treat potentially life-threatening conditions, including infections attributed to MRSA.
- Iclaprim offers the potential for alternative treatment for those patients who may not be able to tolerate currently existing therapies.
- Iclaprim may offer potential benefit in the treatment of community-acquired MRSA infections.

The selection of clinics and patient enrolment is progressing as planned and Arpida expects to report the findings of an independent Data and Safety Monitoring Board (DSMB) based on an interim safety data analysis during the first half of 2006. A positive report is expected to clear the way for the ASSIST clinical programme to continue as planned.

In addition, results from several Phase I trials, studying special populations and drug-drug interactions, are expected over the next months. The first of the two ASSIST trials is due to complete by late 2006.

Based on these expectations, intravenous iclaprim could reach the market in 2008.

### ***Intravenous iclaprim – Nosocomial Pneumonia, a Second Significant Indication***

Iclaprim is a broad-spectrum antibiotic and it is a key component of Arpida's strategy to identify and investigate other serious bacterial infections against which iclaprim might be effective.

In June 2005, the results of a special Phase I clinical trial, known as a Bronchial Alveolar Lavage study, which set out to determine iclaprim concentrations in the lung were announced, confirming that iclaprim achieves high concentrations in the specific compartments of the lung where clinically relevant pathogens, including MRSA, are most commonly found.

These results pave the way for additional trials of iclaprim for the treatment of nosocomial pneumonia as a second important indication. A clinical programme for this indication is currently under evaluation.

### ***Oral iclaprim – Potential for New Treatment Alternatives***

In July 2005, the US FDA approved an Investigational New Drug application (IND), allowing Arpida to conduct clinical studies and to file such studies with the US authorities.

In 2005, clinical trials were initiated in Europe. Early in 2006, Arpida announced results of several trials within this Phase I programme, which showed that oral administration (solution and capsule) of iclaprim can easily achieve blood levels comparable with those of therapeutic doses of intravenous iclaprim. A further trial to determine the maximal tolerated dose is currently on-going.

Additional Phase I trials are planned during the year and will, pending positive results, provide the foundation for a later-stage clinical programme.

Arpida strongly believes that the availability of an oral formulation will be one of the key differentiating features of iclaprim over virtually all of the antibiotics for the treatment of bacterial infections including MRSA. Iclaprim can be offered not only as an intravenous therapy for hospital use in acute situations, but also as an oral formulation, allowing earlier

discharge from hospital and out-patient treatment. This switch could be a valuable instrument in reducing healthcare costs and enhancing patient comfort.

### **AR-709 – Progressing Novel Antibiotic Candidates towards the Clinic**

AR-709 originates directly from Arpida's own drug discovery efforts. It is a bactericidal antibiotic against pathogens that cause infections of the upper and lower respiratory tract. In particular, it shows potent activity against pan-resistant *Streptococcus pneumoniae* which is becoming a real threat to the community.

Unlike iclaprim, which targets infections in hospitalised patients, AR-709 is aimed at the community market. This market has a total estimated value of USD 18 billion per annum. Given the costs of development and the large sales and marketing investment needed to enter the community antibiotic market, Arpida intends to partner this compound for late stage clinical development and commercialisation.

In preclinical tests, AR-709 effectively sterilised the lung tissue. Moreover, preclinical testing has shown that the compound could have characteristics that would make it a valuable addition to the general practitioner's armamentarium for the treatment of streptococcal infections. They include:

- Potent activity against multidrug-resistant pathogens
- Bactericidal
- Low propensity for development of resistance
- Potential for once-daily dosage

In October 2005, a preclinical study conducted by Prof. Michael R. Jacobs of the University of Cleveland was completed. AR-709 demonstrated a potent ability to eradicate pathogens such as *S. pneumoniae*, which were resistant to commonly used antibiotics such as penicillins, macrolides and cotrimoxazole.

Arpida is currently undertaking IND-enabling studies and if positive expects to start first-in-man studies during 2006.

### **Preclinical Programmes – Building the Pipeline Behind iclaprim**

Arpida's discovery platform consists of an integrated multidisciplinary approach to identify novel classes of antibiotics. In particular, Arpida seeks to identify antibiotics acting via novel mechanisms of action, focusing on the secretion pathway, gene regulation, protein synthesis (non-ribosomal), sugar transport and response cascade of bacteria, as well as on novel cell wall targets. Such drugs should be able to overcome the resistance problems associated with current clinical therapies and be active on new emerging pathogens while showing good safety in disease-compromised patients.

To date, 12 discovery targets have already been screened and several new chemical hits and leads have been identified against some of these targets. Biological profiling has indicated that these leads act on bacteria via selective inhibition of specific target proteins and constitute novel classes of antibiotics.

Arpida's research efforts are focussed on finding new chemical entities to address current and future needs. For example, in recent years topical antibiotics used in preventive medicine have seen a large increase in resistance and represent an important emerging need. Similarly, recent reports have raised serious concerns on gastrointestinal infections, particularly those caused by *Clostridium difficile*. The main programmes, aimed at these needs, are the following:

### **(i) Topical programme**

Arpida is investigating the activity of new molecular classes against novel targets. Result of this research effort has been the identification of a new chemical series, which shows good *in vitro* activity against Gram-positive and anaerobic pathogens. The compounds of this series appear to have the appropriate characteristics for being developed in several topical indications (e.g. prevention and treatment of, among others, MRSA skin infections). Currently, early studies are in progress to establish proof of concept, which if successful, have the potential to lead on to preclinical development later in 2006.

### **(ii) Gastrointestinal programme**

Arpida's research team has identified molecules of different series possessing very good *in vitro* activity against *Clostridium difficile*. The molecules of these series have the potential for the treatment and prevention of serious gastrointestinal infections including those caused by the emerging and difficult to treat multidrug-resistant *Clostridium difficile*. As above, if proof of concept is established for these molecules during 2006, preclinical development could potentially begin by late 2006 or early 2007.

### **(iii) Five early stage research programmes**

In addition, Arpida's search of low molecular weight series acting on novel targets that have not been exploited by any of the currently commercialised antibiotics, has led to the selection of several high affinity ligands with good inhibitory activity of their respective targets. Structural studies of the ligand-target complex are currently underway or planned to start in early 2006. These should support optimisation efforts of the series in order to improve *in vitro* and *in vivo* activities.

## **Strengthened Organisation**

In April 2005, Arpida strengthened its Scientific Advisory Board with the appointment of Professor John G. Bartlett, MD. Prof. Bartlett, Chief of the Division of Infectious Diseases at the prestigious Johns Hopkins University School of Medicine is an expert in infectious diseases and their treatment and management, including community-acquired pneumonia, diarrhoea and anaerobic infections, as well as viral infections, specifically HIV and AIDS.

Arpida has also recruited Nicholas Coppard as Head of Development. Dr Coppard has more than 20 years of experience in pharmaceutical drug research, development and strategic marketing. At Roche Products Ltd (Welwyn, UK), he successfully led teams responsible for the development and life cycle management of Cytovene<sup>®</sup>, Valcyte<sup>®</sup>, Invirase<sup>®</sup>/Fortovase<sup>®</sup> and MabThera<sup>®</sup>. Most recently, he was Director of Applied Research and Development at Adprotech Ltd (Cambridge, UK).

At year-end 2005, Arpida employed 82 people, up from 72 at the end of 2004. The growth mainly stems from the expansion of Arpida's clinical development department driven by compounds moving from the laboratory into clinical trials.

## **Arpida Founder to Retire**

Dr Dieter Gillessen (70), Senior Vice President, Chief Operating Officer and Director, and a co-founder of Arpida, has announced his plans to retire in 2006.

Over the past eight years Dr Gillessen made vital contributions to Arpida's development both on the scientific and organisational front, based on the wealth of experience in the pharma

industry he gathered at F. Hoffmann-La Roche in Basel, where he was Head of Peptide, Protein and Nucleic Acid Research and Deputy Head of the Molecular Biology Department.

## **Outlook for 2006**

Arpida is confident of continuing progress in its clinical and preclinical programmes during 2006.

Key events anticipated for intravenous iclaprim include:

- The receipt of an interim report from an independent Data and Safety Monitoring Board on the Phase III clinical trial for intravenous iclaprim
- The completion of patient recruitment in the first of two Phase III programmes for intravenous iclaprim
- Evaluation of a clinical programme for intravenous iclaprim in nosocomial pneumonia

Arpida also expects to complete its Phase I trial programme for oral iclaprim, enabling the company to accelerate its planning for further clinical trials.

Preclinical studies with AR-709 are expected to conclude during 2006, which if positive will lead to an IND application and initiation of first-in-man studies. Meanwhile, the company continues to evaluate its internal research programmes, the most advanced of which could move into preclinical development during the year.

Finally, Arpida is fully funded to complete the ongoing clinical trials for iclaprim and progress AR-709 into the clinic. While strategic partnerships could present opportunities, the strong cash position and continued careful control on costs enables the company to retain the strategic flexibility to proceed independently.

## For further information:

The results presentation and the 2005 annual report are available on Arpida's website: [www.arpida.com](http://www.arpida.com) under 'Download Centre'.

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## About Arpida Ltd.

Arpida (SWX: ARPN) is a biopharmaceutical company with research facilities near Basel, Switzerland and in Copenhagen, Denmark. It focuses on the discovery and development of novel antibiotic drugs that seek to overcome the growing problem of bacterial resistance. Arpida uses an integrated multidisciplinary platform including genomics-assisted selection of novel antibacterial targets to develop its portfolio of potential drug candidates. The company currently employs 85 people.

Arpida's leading product candidate is intravenous iclaprim, a broad-spectrum antibiotic that targets severe infections requiring hospital treatment, including those caused by methicillin-resistant *Staphylococcus aureus* (MRSA). Arpida is currently conducting global Phase III trials with intravenous iclaprim for the treatment of cSSSI (complicated skin and skin structure infections). The US Food and Drug Administration has granted fast track status to intravenous iclaprim for the treatment of cSSSI.

An oral formulation of iclaprim has successfully completed three Phase I trials: a radiolabelled ADME study (absorption, distribution, metabolism and excretion), a Phase I bioavailability trial with a solution and one with a capsule formulation. Oral iclaprim could offer significant benefits as it would enable earlier discharge from hospital and out-patient treatment. This switch could be a valuable instrument in reducing healthcare costs and enhancing patient comfort.

Arpida's third most advanced programme, AR-709, targets upper and lower respiratory tract infections in the community setting. AR-709 is in late pre-clinical development. In addition, the company has a further 12 pre-clinical antibiotic programmes derived from its own discovery platform, which are at various stages of development.

*This press release contains specific forward-looking statements, e.g. statements including terms like believe, assume, expect or similar expressions. Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may result in a substantial divergence between the actual results, financial situation, development or performance of the company and those explicitly or implicitly presumed in these statements. Against the background of these uncertainties readers should not place undue reliance on forward-looking statements. The company assumes no responsibility to update forward-looking statements or to adapt them to future events or developments.*

# Arpida Consolidated Financial Statements

## CONSOLIDATED BALANCE SHEETS

(in CHF)	December 31, 2005	December 31, 2004
<b>Assets</b>		
<b>Non-current assets</b>		
Goodwill	6,000,378	5,968,265
Other intangible assets	122,115	340,382
Plant and equipment	3,103,925	2,594,274
Other non-current receivables	-	49,377
Prepaid pension	114,613	3,335
<b>Total non-current assets</b>	<b>9,341,031</b>	<b>8,955,633</b>
<b>Current assets</b>		
Inventories	-	490,566
Prepayments	3,004,153	354,608
Other receivables	887,583	407,267
Cash and cash equivalents	122,420,409	68,199,187
<b>Total current assets</b>	<b>126,312,145</b>	<b>69,451,628</b>
<b>Total assets</b>	<b>135,653,176</b>	<b>78,407,261</b>
<b>Equities and liabilities</b>		
Share capital	3,274,392	2,194,392
Share premium	231,831,941	143,652,980
Other reserves (share-based compensation)	1,905,427	990,367
Cumulative translation differences	79,393	(70,289)
Accumulated loss	(106,212,682)	(71,171,022)
<b>Total equity</b>	<b>130,878,471</b>	<b>75,596,428</b>
<b>Current liabilities</b>		
Trade accounts payables	1,564,627	800,639
Accrued and other current liabilities	3,210,078	2,010,194
<b>Total current liabilities</b>	<b>4,774,705</b>	<b>2,810,833</b>
<b>Total equity and liabilities</b>	<b>135,653,176</b>	<b>78,407,261</b>

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in CHF)	2005	2004
<b>Income from services</b>	-	58,360
Research and development	(29,199,620)	(17,590,455)
Management and general expenses	(7,270,920)	(4,999,447)
<b>Total operating expenses</b>	<b>(36,470,540)</b>	<b>(22,589,902)</b>
<b>Operating loss</b>	<b>(36,470,540)</b>	<b>(22,531,542)</b>
Financial income	1,438,288	191,284
Financial expenses	(9,408)	(811,818)
<b>Net loss before tax</b>	<b>(35,041,660)</b>	<b>(23,152,076)</b>
Income tax expense/benefit	-	-
<b>Net loss for the period</b>	<b>(35,041,660)</b>	<b>(23,152,076)</b>
<b>Basic and diluted loss per share</b>	<b>(2.41)</b>	<b>(2.96)</b>

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in CHF)	2005	2004
<b>Operating activities</b>		
Net loss for the period	(35,041,660)	(23,152,076)
Reversal of non-cash items:		
- Depreciation on tangible assets	1,279,137	655,934
- Amortisation on other intangible assets	154,448	32,757
- Interest on subordinated convertible loans	-	86,263
- Share based compensation charges	915,060	990,367
- Changes in the comp. of net working capital:		
- Change in inventories	490,372	486,243
- Change in other current & long-term receiv.	(429,792)	10,582
- Change in prepayments	(2,648,994)	(16,086)
- Change in acc. payable & accrued liabilities	1,959,784	(90,632)
- Change in prepaid pension	(111,278)	(101,059)
<b>Net cash used in operating activities</b>	<b>(33,432,923)</b>	<b>(21,097,707)</b>
<b>Investing activities</b>		
Cash in-flow from acquisition of Arpida A/S	-	21,579,727
Plant and equipment purchases	(1,777,586)	(323,376)
Proceeds from the sale of intangible assets	64,330	-
<b>Net cash provided by / (used in) investing activities</b>	<b>(1,713,256)</b>	<b>21,256,351</b>
<b>Financing activities</b>		
Issuance of common/preferred shares	97,200,000	60,967,014
Capital increase expenses	(7,941,039)	(3,031,137)
Capital incr. exp. for the acq. of Arpida A/S	-	(165,707)
<b>Total cash provided by financing activities</b>	<b>89,258,961</b>	<b>57,770,170</b>
<b>Net increase in cash position</b>	<b>54,112,782</b>	<b>57,928,814</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>68,199,187</b>	<b>10,306,793</b>
Exchange gains / (losses) on cash and cash equivalents	108,440	(36,420)
Net increase in cash and cash equivalents	54,112,782	57,928,814
<b>Cash and cash equivalents, end of period</b>	<b>122,420,409</b>	<b>68,199,187</b>
Interest payment received as part of net cash used in operating activities	973,328	172,860

## Consolidated Statements of Equity

	Number of shares			CHF						
	Common share	Preferred shares	Total	Share capital	Share premium	Total capital paid-in	Other reserves	Cumulative translation differences	Accumulated loss	Total equity
<b>At December 31, 2003</b>	<b>516,250</b>	<b>4,594,600</b>	<b>5,110,850</b>	<b>1,022,170</b>	<b>53,524,817</b>	<b>54,546,987</b>	-	-	<b>(48,018,946)</b>	<b>6,528,041</b>
Issuance of shares	61,350	5,605,440	5,666,790	1,133,358	90,247,585	91,380,943	-	-	-	91,380,943
Equity funding costs	-	-	-	-	(3,031,137)	(3,031,137)	-	-	-	(3,031,137)
Acquisition costs	-	-	-	-	(165,707)	(165,707)	-	-	-	(165,707)
Conversion subordinated loans	-	194,319	194,319	38,864	3,077,422	3,116,286	-	-	-	3,116,286
Share-based compensation	-	-	-	-	-	-	990,367	-	-	990,367
Translation differences	-	-	-	-	-	-	-	(70,289)	-	(70,289)
Net loss for the period	-	-	-	-	-	-	-	-	(23,152,076)	(23,152,076)
<b>At December 31, 2004</b>	<b>577,600</b>	<b>10,394,359</b>	<b>10,971,959</b>	<b>2,194,392</b>	<b>143,652,980</b>	<b>145,847,372</b>	<b>990,367</b>	<b>(70,289)</b>	<b>(71,171,022)</b>	<b>75,596,428</b>
Conversion preferred shares	10,394,359	(10,394,359)	-	-	-	-	-	-	-	-
Capital increase IPO	5,400,000	-	5,400,000	1,080,000	96,120,000	97,200,000	-	-	-	97,200,000
Equity funding costs	-	-	-	-	(7,941,039)	(7,941,039)	-	-	-	(7,941,039)
Share-based compensation	-	-	-	-	-	-	915,060	-	-	915,060
Translation differences	-	-	-	-	-	-	-	149,682	-	149,682
Net loss for the period	-	-	-	-	-	-	-	-	(35,041,660)	(35,041,660)
<b>At December 31, 2005</b>	<b>16,371,959</b>	<b>-</b>	<b>16,371,959</b>	<b>3,274,392</b>	<b>231,831,941</b>	<b>235,106,333</b>	<b>1,905,427</b>	<b>79,393</b>	<b>(106,212,682)</b>	<b>130,878,471</b>

On August 12, 2004, the shares were split 1 to 50. All references to shares in 2004 have been restated to reflect this change.

## **Condensed Notes to the Consolidated Interim Financial Statements**

### **1. Organisation**

Arpida Ltd (the "Company") together with its subsidiaries (collectively "Arpida") is a therapeutically focused biopharmaceutical Company focusing on the discovery and development of new, safer and more efficacious anti-microbial drugs for the treatment of infectious diseases.

To date, Arpida has financed its cash requirements primarily from share issuances and debt financings. Arpida is a development stage enterprise as of 31 December 2005 and is exposed to all the risks inherent in establishing a business: Inherent in Arpida's business are various risks and uncertainties, including the substantial uncertainty that current projects will succeed. Arpida's success may depend in part upon its ability to (i) establish and maintain a strong patent position and protection, (ii) enter into collaborations with partners in the pharmaceutical industry, (iii) acquire and keep key personnel employed, and (iv) acquire additional capital to support its operations.

The Company was registered in the register of commerce on 18 August 1997 and has its domicile and registered office at Dammstrasse 36, CH-4142 Münchenstein, Switzerland. Since 4 May 2005, the Company is a public company whose shares are traded at the SWX Swiss Exchange.

### **2. Accounting policies**

#### **Basis of accounting**

The financial statements of Arpida are prepared in accordance with the historical cost convention except for the revaluation to market value of certain financial assets and liabilities and comply with the International Financial Reporting Standards (IFRS) formulated by the International Accounting Standards Board (IASB) and with International Accounting Standards (IAS) and interpretations formulated by its predecessor organisation the International Accounting Standards Committee (IASC).

#### **Critical accounting estimates**

The preparation of the financial statement requires management to use certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Such estimates and assumptions effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual outcomes could differ from those estimates.

#### **Changes in accounting policies**

In 2003, the International Accounting Standards Board (IASB) published a revised version of IAS 32 'Financial Instruments: Disclosure and Presentation', a revised version of IAS 39 'Financial Instruments: Recognition and Measurement' and 'Improvements to International Accounting Standards', which makes changes to 14 existing standards. In 2004 the IASB published IFRS 2 'Share-based Payment', IFRS 3 'Business Combinations', IFRS 4 'Insurance Contracts', IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', revised versions of IAS 36 'Impairment of Assets' and IAS 38 'Intangible Assets' and further amendments to IAS 39. Arpida adopted these effective 1 January 2005. Except for IFRS 2 and IFRS 3, the adoption of these standards had no or an immaterial impact on Arpida's consolidated financial statements.

**IFRS 2 (share-based compensation)** - IFRS 2 requires the fair value of any equity instruments granted to employees to be recognised as an expense as long as such instruments are granted after November 7, 2002 and had not yet vested at January 1, 2005. In order to assess such expenses, the Company calculates the fair value of the granted options using a binomial option value assessment model. The resulting expenses are recognised on a straight-line basis over the vesting period. As a result, total operating expenses for the years 2004 and 2005 increase by CHF 990,367 and CHF 915,060 respectively. The net losses for the above periods increase by the same amounts.

In the consolidated financial statements as per 31 December 2004 no equity related expense has been recognised. As required by IFRS 2, the Company has restated its prior-year audited historical consolidated financial statements to reflect the cost of grants awarded since 7 November 2002.

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**Restated statement of operations for the period 1 January to 31 December 2004**

(in CHF)	2004 reported	IFRS 2	2004 restated
<b>Income from services</b>	<b>58,360</b>	-	<b>58,360</b>
Research and development	(17,463,772)	(126,683)	(17,590,455)
Management and general expenses	(4,135,763)	(863,684)	(4,999,447)
<b>Total operating expenses</b>	<b>(21,599,535)</b>	<b>(990,367)</b>	<b>(22,589,902)</b>
<b>Operating loss</b>	<b>(21,541,175)</b>	<b>(990,367)</b>	<b>(22,531,542)</b>
Financial result, net	(623,241)	-	(623,241)
Foreign exchange gains	2,707	-	2,707
<b>Net loss before tax</b>	<b>(22,161,709)</b>	<b>(990,367)</b>	<b>(23,152,076)</b>
Income tax expense/benefit	-	-	-
<b>Net loss for the period</b>	<b>(22,161,709)</b>	<b>(990,367)</b>	<b>(23,152,076)</b>
<b>Basic and diluted loss per share</b>	<b>(2.84)</b>	<b>(0.12)</b>	<b>(2.96)</b>

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<b>Restated equity at December 31, 2004</b>	<b>2004 reported</b>	<b>IFRS 2</b>	<b>2004 restated</b>
Share capital	2,194,392	-	2,194,392
Share premium	143,652,980	-	143,652,980
Other reserves			
(Share-based compensation)	-	990,367	990,367
Cumulative translation difference	(70,289)	-	(70,289)
Accumulated loss	(70,180,655)	(990,367)	(71,171,022)
<b>Total equity</b>	<b>75,596,428</b>	<b>-</b>	<b>75,596,428</b>

**IFRS 3 (business combination)** - Under IFRS 3, with effect from 1 January 2005, goodwill is considered to have an indefinite life and is not amortised but is subject to annual impairment testing. This new accounting policy was already applied in 2004 for the preliminary estimate of the goodwill in conjunction with the acquisition of Arpida A/S (formerly known as Combio A/S) in October 2004. There is no other goodwill.

### 3. Changes in the scope of consolidation

In 2005, there were no changes to the group scope.

#### 4. Information by geographical area

The group has only one business segment, namely the discovery and development of new, safer and more efficacious antimicrobial drugs for the treatment of infectious diseases.

(in CHF)	2005	2004
<b>Research &amp; development</b>		
Switzerland	(23,866,243)	(16,075,046)
Outside Switzerland	(5,333,377)	(1,515,409)
<b>Total research &amp; development</b>	<b>(29,199,620)</b>	<b>(17,590,455)</b>
<b>Management &amp; general expenses</b>		
Switzerland	(6,781,527)	(4,743,926)
Outside Switzerland	(489,393)	(255,521)
<b>Total management &amp; general expenses</b>	<b>(7,270,920)</b>	<b>(4,999,447)</b>
<b>Total operating expenses</b>	<b>(36,470,540)</b>	<b>(22,589,902)</b>

#### 5. Shareholders Equity

On 31 December 2003, the issued share capital amounted to CHF 1,022,170 consisting of 516,250 common shares with a nominal value of CHF 0.20 each and 4,594,600 preferred A, B and C shares with a nominal value of CHF 0.20 each.

On 7 May 2004, the Company increased its share capital by CHF 629,470 (3,147,350 preferred C shares with a nominal value of CHF 0.20 each). Part of this capital increase involved the conversion of the subordinated convertible loans into the preferred C shares. As of 23 September 2004 the Company increased its share capital by CHF 157,476 (787,379 preferred C shares with a nominal value of CHF 0.20 each). As of October 14, 2004 the Company increased its share capital by CHF 373,006 (1,865,030 preferred C shares with a nominal value of CHF 0.20 each) in order to acquire Arpida A/S and by CHF 12,270 (61,350 common shares with a nominal value of 0.20 each) in connection with the exercise of warrants associated with the subordinated convertible loans.

On 3 May 2005, the Company converted all preferred A, B and C shares one for one into common shares and issued 5,400,000 common shares in the Initial Public Offering at the SWX Swiss Exchange excluding the pre-emptive right ("Bezugsrecht") of the shareholders. The first day of trading was May 4, 2005 and the total number of registered common shares issued amounts to 16,371,959 with a nominal value of CHF 0.20 each, bringing the nominal share capital to CHF 3,274,391.80.

On 31 December 2005, the Company has a conditional share capital for the potential issuance of 1,935,000 registered shares (common shares) of CHF 0.20 each (CHF 387,000) under the stock option plan for employees, Board members and persons in comparable positions. On 31 December 2004 the conditional share capital was 1,389,750 registered shares (common shares) of CHF 0.20 each (CHF 277,950).

#### 6. Legal Proceedings

Arpida is not involved in legal proceedings.

## Shareholder Information

Stock Exchange: SWX Swiss Exchange (Main Segment)  
Ticker Symbol: ARPN  
Reuters: ARPN.S  
Swiss Security Number: 2121806  
ISIN: CH 0021218067  
Common Code: 021801755  
First Day of Trading: May 4, 2005  
Total Shares Outstanding: 16,371,959 registered common shares with a nominal value of CHF 0.20 each  
Free Float: 33%  
Share Register: Arpida Ltd.  
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c/o Nimbus AG, Postfach  
CH-8866 Ziegelbrücke, Switzerland  
Phone: +41 (0)55 617 37 35  
Fax: +41 (0)55 617 37 28  
E-Mail: [arpida@nimbus.ch](mailto:arpida@nimbus.ch)

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