Quarterly Report Q2 |05

intercell
SMART VACCINES

Company Snapshot

Intercell AG is a fast growing biotechnology company with a clear strategy and focus on the design and development of novel vaccines for the prevention and treatment of diseases with substantial unaddressed medical need.

The Company's unique position is based on the combination of antigens and immunizers (adjuvants) derived from its proprietary technology platforms and its in-house GMP manufacturing facilities. Intercell's technology has been endorsed by collaborative agreements with a number of global pharmaceutical companies, including sanofi pasteur, Merck&Co., Inc., SciGen Ltd. and the Statens Serum Institut. The Company has a broad development pipeline with a vaccine against Japanese Encephalitis about to enter Phase III, a vaccine against Hepatitis C undergoing Phase II trials, and five products focused on infectious diseases in the pre-clinical development. Intercell is listed on the Vienna stock exchange under the symbol "ICLL".

The company employs more than 140 co-workers from 16 different nations. Our headquarters are in Vienna (Austria); other locations are Livingston (Scotland), and Mooresville, North Carolina, (USA) for manufacturing and business development, respectively.

For more information please visit:
www.intercell.com

KEY MILESTONES Q2 2005:

›› DESIGN OF UPCOMING PHASE III CLINICAL TRIALS FOR JAPANESE ENCEPHALITIS VACCINE (JEV) NOW APPROVED BY MAJOR EUROPEAN AUTHORITIES - - EMEA SCIENTIFIC ADVICE CONFIRMS INTERCELL'S DEVELOPMENT STRATEGY FOR JAPANESE ENCEPHALITIS VACCINE TO BE SUITABLE FOR LICENSURE IN EUROPE

›› PREPARATION OF JEV VACCINE PHASE III CLINICAL MATERIAL ON TRACK. START OF PHASE III CLINICAL TRIALS PLANNED FOR SEPTEMBER

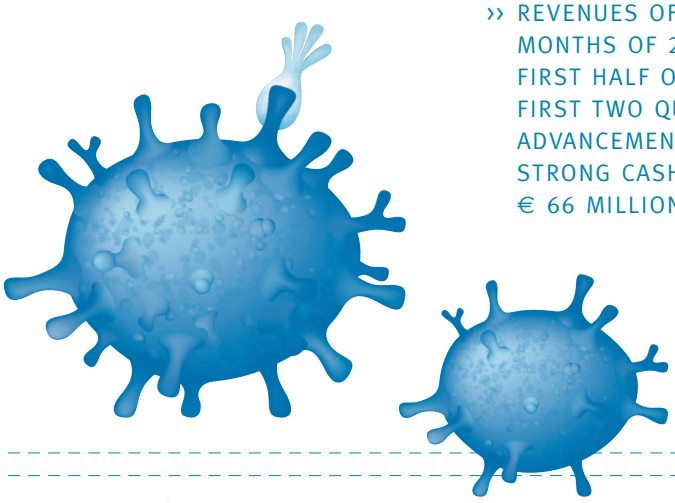
›› INTERCELL'S PARTNER SANOFI PASTEUR S.A. EXERCISED ITS OPTION ON AN EXCLUSIVE LICENSE ON CERTAIN BACTERIAL VACCINE ANTIGENS - UP TO € 23 MILLION LICENSE AND MILESTONE PAYMENTS

›› $ 6.6 MILLION R&D GRANT FROM US NIH FOR INTERCELL TO DEVELOP BIODEFENSE VACCINES

›› SUPPORT OF THE AERAS GLOBAL TB VACCINE FOUNDATION FOR JOINT DEVELOPMENT PROJECT OF INTERCELL AND STATENS SERUM INSTITUT FOR A NEW PROPHYLACTIC TUBERCULOSIS VACCINE

›› INTERCELL COORDINATES THE DEVELOPMENT OF A NOVEL VACCINE AGAINST LYME BORRELIOSIS - EUROPEAN COMMISSION PROVIDES SUPPORT MOUNTING TO € 1.4 MILLION FOR THE NEXT TWO YEARS

›› REVENUES OF € 4.1 MILLION IN THE FIRST SIX MONTHS OF 2005. NET LOSS OF € 8.1 MILLION IN FIRST HALF OF 2005 - UP 14.9 % COMPARED TO FIRST TWO QUARTERS OF 2004 – DRIVEN BY ADVANCEMENT OF JEV VACCINE DEVELOPMENT. STRONG CASH POSITION WITH MORE THAN € 66 MILLION.



Q2 2005 Operational and Business Strategy Review

›› JAPANESE ENCEPHALITIS

The highest priority is given to the preparations for the start of Phase III trials in 2005, which include the manufacturing of clinical consistency lots in our facility in Livingston (Scotland). Global, multi-center Phase III trials are planned to start in September involving about 800 individuals to demonstrate immunogenicity of the Intercell vaccine, compared to mouse brain derived JE-VAX®, which is the only Japanese Encephalitis vaccine approved in the US. At the same time, a series of additional Phase III trials will be carried out to gather further immunogenicity and safety data in approximately 4.000 subjects.

After the US FDA's agreement on Intercell's development strategy last fall, we have now received final guidance for our Phase III development program from the Scientific Advice Group of the European Medicines Agency (EMEA). Based on this advice we will proceed with our global development program also with a view to submitting a Marketing Authorization Application (MAA) in Europe through the centralized procedure. Furthermore, the company has also received the approval for the start of Phase III clinical studies for the Japanese Encephalitis Vaccine from major European authorities. The Phase III clinical trial is now approved in Australia, Austria, Bulgaria, Germany, Romania, the UK and the US.

We expect BLA (Biologics License Application) filing in 2006 and product registration in the US in 2007. Our strategic partner Biological E for the marketing and sales of our Japanese Encephalitis vaccine in certain Asian countries enables us to optimally cover and meet the requirements of the market where the disease is endemic.

›› HEPATITIS C

The development of our therapeutic vaccine against Hepatitis C continues to be fully on track. After completion of our first Phase II clinical study in 2004, the clinical development program has been further extended. A follow-up study has been designed to further increase the T-cell response that is pivotal to fight the infection by optimizing the route and the frequency of vaccinations. The new study, for which recruitment has recently been completed, is being performed at the General Hospital of Vienna, where Intercell's Hepatitis C vaccine is being applied to more than 50 healthy volunteers by administering up to 16 vaccinations at weekly intervals. Should results warrant it, the study will be extended to chronic HCV patients in 2006. Intercell's Hepatitis C vaccine is also being tested in combination with the Interferon/Ribavirin standard therapy in another Phase II trial. This trial is expected to be completed in 2006.

›› RESEARCH AND PRECLINICAL PRODUCTS

Under a European Union Sixth Framework project we have started research activities to develop a novel vaccine against Lyme borreliosis, which is supported by the European Commission with € 1.4 million over the next two years. Intercell is the coordinator of this project, which brings together expertise of leading scientists and biotech companies from six institutions in Austria, the Czech Republic, Germany and Sweden.

We received an R&D grant from the National Institute of Health (NIH) of the United States amounting to $ 6.6 million. The grant supports the incorporation of Intercell's proprietary adjuvant program (IC31™) into the development of biodefense vaccines.

Within our preclinical programs we primarily focus on vaccines against Streptococcus Pneumoniae and Group A Streptococcus infections in order to define product candidates in 2005 for future clinical development. For the development of our novel antibody therapies we intend to partner at least one program in 2005.

›› STRATEGIC ALLIANCES & LICENSING

All existing strategic alliances that have resulted from our highly successful antigen identification and adjuvant (IC31™) technologies are moving forward according to the intended timelines:

Our partner sanofi pasteur has exercised its option on exclusive worldwide commercial rights on certain bacterial vaccine antigens identified by our Antigen Identification Program. Over the entire term of the agreement, Intercell will be entitled to milestone based license payments totaling to about € 23 million, as well as royalties on future net sales. Our joint project with the Statens Serum Institut for the development of a new prophylactic tuberculosis vaccine has gained the support of the Aeras Global TB Vaccine Foundation. Aeras will fund the development of the vaccine and subsequent clinical trials and in return will be given a sublicense for the future TB vaccine for a number of developing countries.

In some of our partnerships we expect first clinical trials within this year. Our major strategic partners are: Merck&Co., Inc. (US), sanofi pasteur (France), Statens Serum Institut (Denmark) and SciGen Ltd. (Australia/Singapore). We expect further alliances resulting from our technology platforms within the next months.

Q2 2005 Financial Review

›› REVENUES

Intercell's aggregate revenues were € 3.7 million in the quarter ended June 30, 2005, which was approximately the same as in the second quarter of 2004. In both the current and the comparative period, revenues resulted primarily from collaborations with major pharmaceutical companies. Revenues in the second quarter of 2005 included € 3.1 million from a collaboration with sanofi pasteur S.A. (previously Aventis Pasteur S.A.), which exercised its option to acquire a worldwide exclusive license to commercialize certain bacterial vaccine antigens identified by Intercell. Our aggregate revenues from collaboration and licensing were € 3.5 million in the three months ended June 30, 2005 compared to € 3.4 million in the second quarter of 2004. Public subsidies decreased from € 0.3 million in the quarter ended June 30, 2004 to € 0.2 million in the second quarter of 2005.

›› RESULTS OF OPERATIONS

Our net loss in the second quarter of 2005 increased by 29.4 percent to € 3.1 million compared to € 2.4 million in the second quarter of 2004. Our net operating expenses increased from € 6 million in the quarter ended June 30, 2004 to € 7.1 million in the quarter ended June 30, 2005. The increase in net operating expenses and net loss was primarily due to an increase in research and development costs, which was partly offset by a decrease in sales, general and administration costs and other operating expenses, net.

Our research and development costs in the quarter ended June 30, 2005 were € 5.3 million compared to € 3.8 million in the quarter ended June 30, 2004. Sales, general and administration costs slightly decreased from € 2.2 million in the second quarter 2004 to € 2.0 million in the quarter ended June 30, 2005.

In the second quarter of 2005 we recorded € 0.1 million in net other operating income, primarily due to foreign currency gains, compared to € 0.1 million in net other operating expenses in the second quarter of the previous year. Our financial income, net of expenses was € 0.3 million in the second quarter of 2005. This compares to net financial expenses of below € 0.1 million in the same period of 2004.

Half year 2005 Financial Review

›› REVENUES

Our aggregate revenues in the first six months of 2005 were € 4.1 million, compared to € 4.0 million in the same period of 2004. Our revenues from collaborations and licensing were € 3.5 million in the first half of 2005 and € 3.4 million in the first six months of 2004. Revenues from public subsidies were € 0.6 million in both the current and the comparative period. However, revenues have been distributed very unequally over the first two quarters of 2005 and 2004 and we expect to continue to experience fluctuations in our quarterly revenue figures.

›› RESULTS OF OPERATIONS

Our net loss increased by € 1.0 million, or by 14.9 percent, to € 8.1 million in the six months ended June 30, 2005 from € 7.1 million in the first half of 2004.

The increase in our net loss is due to a 36.9 percent increase in research and development costs from € 6.8 million in the first half of 2004 to € 9.3 million in the first half of the current year, which was primarily due to manufacturing costs for clinical trial material in our production facility in Livingston, Scotland, and costs relating to the planned Phase III trials for our JEV vaccine. Our sales, general and administration costs decreased from € 4.0 million in the six months ended June 30, 2004 to € 3.6 million in the half year ended June 30, 2005, due to lower personnel expenses and lower costs for external services.

Foreign currency gains led to € 0.2 million in net other operating income in the first half of 2005, compared to € 0.4 million in net other operating expenses in the same period of the previous year.

Our total net operating expenses in the first half of 2005 went up by 13.7 percent to € 12.7 million from € 11.2 million in the first half of the previous year. Our financial income, net of expenses increased from € 0.1 million in the first two quarters of 2004 to € 0.5 million in the same period of 2005. This increase was due to the higher level of interest bearing liquidity reserves resulting from our IPO and to a decrease of interest expense on long term debt. As of June 30, 2005, we have accumulated a net loss of € 76.7 million.

›› CASH FLOW AND CAPITAL RESOURCES

To date we have funded our operations primarily through the sale of our equity securities and through contributions from silent partners, whose participations were converted into shares in September 2004. In February 2005, we completed an initial public offering (IPO) and our shares started trading in the Prime Market Segment of the Vienna Stock Exchange on February 28, 2005. In the course of the offering we sold 9,489,132 shares at an offer price of € 5.50 per share resulting in net proceeds of € 46.0 million after deducting underwriting commissions and offering expenses.

Cash used in operating activities was € 10.7 million and € 6.6 million in the first half of 2005 and 2004, respectively. The increase reflects our intensified research and development activities and an increase in working capital, which includes € 2.1 million of accounts receivable from revenue recorded at the end of the second quarter of 2005. Our net cash used in investing activities of € 36.9 million in the first six months of 2005 and of € 15.7 million in the same period of 2004 was primarily due to investments in short-term securities of our cash proceeds from financing activities. Without giving effect to investments in and proceeds from sale of securities, net cash used in investing activities was € 0.3 million in the half year ended June 30, 2005, compared to € 3.8 million in the six months ended June 30, 2004, in which period the acquisition cost of € 3.3 million for our manufacturing facility in Livingston, Scotland was included.

We had € 66.0 million in liquid reserves as of June 30, 2005 of which € 6.1 million was cash and cash equivalents and € 59.9 million was available-for-sale securities. We intend to use our liquid reserves for the further development and commercialization of our product candidates, the further development of our technologies in order to create additional business opportunities, and for general corporate purposes.

Consolidated Income Statements (unaudited)

€ in thousands (except shares and per share amounts)	Three months ended June 30,		Six months ended June 30,		Dec. 3, 1997 (Inception) to June 30, 2005
	2005	2004	2005	2004	
Revenues					
Revenues from collaborations and licensing	3,551	3,351	3,552	3,376	8,274
Public subsidies	201	340	553	590	9,256
Operating expenses					
Research & development costs	(5,310)	(3,783)	(9,306)	(6,800)	(71,197)
Sales, general & administration costs	(1,954)	(2,161)	(3,605)	(4,019)	(23,595)
Income from transactions with associated companies	15	19	20	38	3,907
Other operating income (expenses), net	138	(95)	198	(387)	(1,784)
Operating loss	**(3,359)**	**(2,329)**	**(8,588)**	**(7,202)**	**(75,139)**
Financial income					
Interest income expenses, net	281	(47)	456	(3)	1,172
Realized gain from the sale of securities	5	2	23	145	660
Net loss before taxes, minority interest and equity in losses of associated companies	**(3,073)**	**(2,374)**	**(8,109)**	**(7,060)**	**(73,307)**
Income tax credit (expense)	(1)	(1)	(2)	(2)	8
Minority interest	0	0	0	0	67
Equity in losses of associated companies	0	0	0	0	(3,513)
Net loss	**(3,074)**	**(2,375)**	**(8,111)**	**(7,062)**	**(76,745)**
Other comprehensive income (expenses), net of tax					
Unrealized holding gains on securities arising during the period	50	87	35	4	391
Foreign currency translation adjustments	21	(2)	77	12	20
Total other comprehensive income (expenses)	**71**	**85**	**112**	**16**	**411**
Comprehensive loss	**(3,003)**	**(2,290)**	**(7,999)**	**(7,046)**	**(76,334)**
Net loss per share (basic and diluted)	**(0.09)**	**(0.10)**	**(0.27)**	**(0.30)**	**-**
Shares used in computing net loss per share	33,391,044	23,423,300	30,151,052	23,423,300	-

Prepared in accordance with US GAAP

Consolidated Balance Sheets (unaudited)

€ in thousands	June 30, 2005	Dec. 31, 2004
Assets		
Current Assets	**69,693**	**32,962**
Cash and cash equivalents	6,114	8,167
Available-for-sale securities, short-term	59,852	23,183
Trade accounts receivable	2,056	1
Accounts receivable from associated companies	0	2
Work in progress	0	310
Other current assets, restricted	366	496
Prepaid expenses and other current assets	1,305	803
Non-current Assets	**6,292**	**6,473**
Property, plant and equipment	5,798	5,979
Loans to management	494	494
Total Assets	**75,985**	**39,435**
Liabilities & Stockholders´ Equity		
Current Liabilities	**6,691**	**8,251**
Current portion of long-term-debt	1,491	1,701
Trade accounts payable	2,239	1,704
Accrued expenses and other current liabilities	2,465	3,096
Deferred income, short-term	496	1,750
Non-current Liabilities	**3,543**	**4,143**
Long-term debt	3,543	4,143
Shareholders' Equity	**65,751**	**27,041**
Share capital (33,575,932 shares at no par value)	33,576	24,078
Additional paid-in capital	109,016	71,861
Treasury stock	(507)	(565)
Deficit accumulated during the development stage	(76,745)	(68,633)
Accumulated other comprehensive income and expenses	411	300
Total Liabilities & Shareholders´ Equity	**75,985**	**39,435**

Prepared in accordance with US GAAP

Consolidated Cashflow Statements (unaudited)

€ in thousands	Six months ended June 30, 2005	Six months ended June 30, 2004	Dec. 3, 1997 (Inception) to June 30, 2005
Cash flows from operating activities			
Net loss	(8,111)	(7,062)	(76,745)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation and amortization	482	386	3,435
Stock-based compensation	700	983	2,172
Purchased in-process research & development projects	0	212	212
Net gain on sale of securities	(23)	(145)	(660)
Net loss from sale of property, plant & equipment	1	0	29
Interest deferred and added to long term debt	33	67	141
Equity in losses of associated companies	0	0	3,508
Change in operating assets and liabilities			
Deferred income	(1,255)	(176)	496
Decrease (increase) in loans to management and employee-related obligations	0	247	(494)
Decrease (increase) in trade accounts receivable	(2,053)	223	(2,056)
Increase (decrease) in trade accounts payable	550	(498)	2,170
Increase in other current assets	(423)	(526)	(1,175)
Increase (decrease) in other current liabilities	(632)	(321)	1,969
Net cash used in operating activities	**(10,731)**	**(6,610)**	**(66,998)**
Cash flows from investing activities			
Purchase of property, plant and equipment	(317)	(514)	(6,205)
Proceeds from sale of property, plant & equipment	0	0	10
Investments in available-for-sale securities	(39,670)	(31,805)	(156,639)
Proceeds from the sale and maturity of available-for-sale securities	3,058	19,970	97,838
Cash paid for acquisitions, net of cash acquired	0	(3,332)	(3,333)
Investments in associated companies	0	0	(3,509)
Disposal of subsidiary, net of cash	0	0	(17)
Net cash used in investing activities	**(36,929)**	**(15,681)**	**(71,855)**
Cash flows from financing activities			
Increase in long-term debt	0	0	8,419
Repayment of long-term debt	(843)	(704)	(3,525)
Proceeds (withdrawals) from silent partners	0	(204)	20,499
Proceeds from issuance of stock	46,335	17,433	120,303
Proceeds from reissuance of (payments to acquire) treasury stock	38	5	(890)
Net cash used in financing activities	**45,530**	**16,530**	**144,806**
Effect of exchange rate fluctuations	77	(1)	161
Decrease in restricted cash, long term	0	3	0
Increase (decrease) in cash and cash equivalents	(2,053)	(5,759)	6,114
Cash and cash equivalents at beginning of period	8,167	24,621	0
Cash and cash equivalents at end of period	**6,114**	**18,862**	**6,114**
Supplemental cash flow information			
Interest paid	96	90	903
Income taxes paid (received)	2	(2)	(8)
Cash, short-term deposits and marketable securities at end of period	**65,966**	**41,791**	**65,966**

Prepared in accordance with US GAAP