To the Copenhagen Stock Exchange
and the Press

Release no. 6/2003

Annual Report 2002

The Board of Directors of Pharmexa A/S has approved the audited financial statements for the financial year 2002.

The Pharmexa Group reported a loss for the financial year 2002 of kDKK 137,870 which was as expected. Research and development costs for the Group were kDKK 158,469. Net revenue was kDKK 30,061.

For 2003, Pharmexa A/S expects decreasing research costs relative to 2002, while development costs are expected to increase as a result of the company's two breast cancer products entering phase I/II and phase II clinical trials, respectively. Overall, Pharmexa A/S' research and development costs are therefore expected to increase to approximately DKK 143 million, up from DKK 137 million in 2002. Research and development costs may vary, depending on the outcome of the company's ongoing outlicensing activities, as the license partner will often take over some or all of the costs associated with a development project.

Pharmexa A/S' administrative expenses are expected to be in line with 2002. Net revenues are expected to be at least in line with 2002 but may turn out to be higher, depending on the outcome of the company's ongoing outlicensing activities.

Against this background, Pharmexa A/S expects a loss before net financials of approximately DKK 110 million. However, this result depends on the company's financial position and on the success of the ongoing outlicensing activities.

At year-end 2002 the Pharmexa Group had marketable securities, cash and cash equivalents of kDKK 174,824. Assuming no further cash contributions, the company expects the present capital resources to be sufficient to cover operations into Q2, 2004.

Position at the balance sheet date, summary:

- Pharmexa's patented AutoVac™ technology is now "fully developed", and the company's strategic focus has shifted from research to development of new drugs

- Concurrently with these activities, Pharmexa has developed a professional and efficient organisation, which is capable of applying optimum productivity and quality in bringing new potential products forward to show the desired effect in man and thereafter to transfer the products to partners, in order to obtain final approval within 8-11 years, matching the top targets in the industry

- Pharmexa's in-house development efforts focus on products within its core areas: Cancer and chronic inflammatory diseases

- Promising results from phase I/II trials with the HER-2 DNA AutoVac™ product against breast cancer were achieved in 2002. The product is well tolerated. It is able to induce a so-called killer cell attack against cancer cells, and there are several indications that it can reduce the extent of tumor growth even in advanced-stage patients. A more extensive phase II trial will be initiated in 2003, and is expected completed in 2005

- The agreement with H. Lundbeck, covering the development of a new groundbreaking drug against Alzheimer's disease, made important progress during the year

After the end of the financial year

- Pharmexa has adjusted its organisation to the financial realities prevailing in today's capital markets. This adjustment will reduce the headcount by 30%, and focus is now on the three products that have reached the most advanced development stage and are expected to first generate substantial income

- Pharmexa has agreed with Dansk Erhvervsinvestering and LD Pensions to close down the activities of Pharmexa's 83.33% owned subsidiary Inoxell. A solvent winding up is expected

The printed Annual Report is expected available on the company's homepage from mid March.

Annual General Assembly

Pharmexa A/S will hold its annual general meeting on April 7, 2003, 15.30 at the Company's domicile on Kogle Allé 6, DK-2970 Hørsholm. At the AGM, the Board of Directors expects to propose a new warrant programme to the company's employees, board members and management.

Hørsholm, March 5, 2003

Søren Mouritsen
Chief Executive Officer

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Summary financial figures for the Group

	2002	2001	2000	1999	1998
	kDKK	kDKK	kDKK	kDKK	kDKK
Financial highlights					
Profit/(loss)					
Net revenues	30,061	19,913	13,101	1,576	2,240
Research costs	91,706	76,419	50,546	37,362	28,624
Development costs	66,763	26,169	9,611	0	0
Administrative expenses	20,434	19,193	7,335	3,283	3,242
Operating profit/(loss)	-148,842	-101,868	-54,391	-39,069	-30,061
Profit/(loss) before net financials	-148,899	-102,045	-55,099	-39,069	-30,061
Profit/(loss) on net financials income	7,909	14,890	14,429	-672	1,992
Net income/(loss)	-137,870	-86,192	-40,670	-39,741	-28,069
Balance sheet					
Intangible assets	3,438	3,623	0	0	0
Tangible fixed assets	36,328	26,052	19,762	17,827	17,283
Marketable securities	136,183	0	0	11,697	30,659
Cash and cash equivalents	38,641	309,313	390,036	24,775	5,357
Total assets	220,455	350,393	413,385	56,383	56,151
Equity	144,694	282,264	368,442	32,641	40,736
Minority interest	10,900	14,020	0	0	0
Non-current liabilities	35,545	25,964	24,152	18,291	11,799
Current liabilities	29,316	28,145	20,791	5,451	3,616
Depreciations	10,304	7,315	4,083	3,152	1,978
Cash flows					
Operating activities	-125,989	-78,316	-20,644	-33,627	-24,940
Investing activities[1]	-156,286	-17,403	5,143	16,033	18,686
hereof invested in tangible fixed assets and intangible assets	-20,223	-17,403	-6,726	-3,694	-12,331
Financing activities	11,603	14,996	380,762	37,012	11,288
Change for the year in cash and cash equivalents[1]	-270,672	-80,723	365,261	19,418	5,034
Average number of employees	143	120	65	49	39
Ratios					
Earnings per share of nom. DKK 10 (DKK per share)	-33,7	-21,0	-11,9	-16,6	-12,4
Equity ratio	66%	81%	89%	58%	73%
Average number of shares	4.098.644	4,095,813	3,428,213	2,398,380	2,263,840

1) The increase herein is caused by investment in marketable securities in connection with a change in the company's portfolio management approach at year-end 2002 of kDKK 136,036.

The ratios have been prepared in accordance with the recommendations and guidelines issued by Danish Society of Financial Analysts (Den Danske Finansanalytikerforening).

Summary comments on the financial statements

Net revenue in the Pharmexa Group amounted to kDKK 30,061 in 2002 compared with kDKK 19,913 in 2001, equivalent to a 51% increase. Revenue consisted primarily of research funding provided under the collaborative agreements with AstraZeneca, H. Lundbeck and Lexigen/Merck KGaA.

Research costs increased by 20% to kDKK 91,706 in 2002 from kDKK 76,419 in 2001. This amount included research costs of kDKK 21,304 in Inoxell. Development costs increased 155% to kDKK 66,763 from kDKK 26,169 in 2001. Inoxell incurred no development costs. Administrative expenses increased by 6% to kDKK 20,434 in 2002 from kDKK 19,193 in 2001. This amount includes administrative expenses of kDKK 3,236 in Inoxell.

The Pharmexa Group has increasing research and development costs. Development costs in Pharmexa A/S have witnessed a particular increase caused by the company's HER-2 DNA, HER-2 Protein and TNF-alpha programmes, which have progressed into the clinical or preclinical phase.

Net financial items declined to kDKK 7,909 in 2002 from kDKK 14,890 in 2001. Financial expenses consisted primarily of interest on a loan granted by the Business Development Finance (VækstFonden), whereas the Pharmexa Group realised interest income of kDKK 10,773 primarily on the cash position.

The Group reported a net loss of kDKK 137,870 in 2002 compared with a net loss of kDKK 86,192 in 2001, equivalent to a 60% increase. The minority share of Inoxell amounts to kDKK 3,120. The result was in line with expectations.

As at December 31, 2002, total assets of the Pharmexa Group amounted to kDKK 220,455 with marketable securities and cash and cash equivalents of kDKK 174,824.

In 2002, the Pharmexa Group employed on average 143 persons compared with 120 in 2001. About 85% of these employees are engaged in research and development. As a result of Pharmexa's organisational adjustment after the balance sheet date, the company has laid off 30 employees, and together with a number of other HR measures, this adjustment represents a staff reduction of approximately 30%. Following this adjustment, Pharmexa expects to employ approximately 87 people.

Follow-up on previous guidance

For the 2002 financial year, Pharmexa expected research and development costs of approximately DKK 130 million in Pharmexa A/S, i.e. the parent company exclusive of Inoxell. The company realised R&D costs of approximately DKK 137 million – a deviation of just below 6%.

The Expectation to the net result in Pharmexa A/S, exclusive of an anticipated loss in the subsidiary Inoxell, was a net loss of about DKK 115 million. The company realised a net loss of DKK 122 million – a deviation of 6%.

Moreover, Pharmexa had projected negative results in its subsidiary Inoxell. In line with forecasts, the loss for the 2002 financial year amounted to DKK 15.6 million.

In 2002, Pharmexa A/S generated net revenues of approximately DKK 25 million, which was also in line with the company's expectations.

The deviation in research and development costs in Pharmexa A/S is attributable to the development function, in which certain preclinical expenses for trials and trial material proved to be higher than initially estimated. This cost increase fed through to the net loss, which turned out accordingly higher. With the exception of this small deviation, the company's financial results for the year were in line with expectations.

Outlook for 2003

The following 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.

For 2003, Pharmexa A/S expects decreasing research costs relative to 2002, while development costs are expected to increase as a result of the company's two breast cancer products are entering phase I/II and phase II clinical trials, respectively. In aggregate, Pharmexa A/S' research and development costs are therefore expected to increase to approximately DKK 143 million, up from DKK 137 million in 2002. Research and development costs may vary, depending on the outcome of the company's ongoing outlicensing activities, as the license partner will often take over some or all of the costs associated with a development project.

Pharmexa A/S' administrative expenses are expected to be in line with 2002. Net revenues are expected to be at least in line with 2002 but may turn out to be higher, depending on the outcome of the company's ongoing outlicensing activities.

Against this background, Pharmexa A/S expects a loss before net financials of approximately DKK 110 million. However, this result depends on the success of the company's ongoing outlicensing activities and financial position.

In-house development and partnerships

Pharmexa pursues a strategy based on in-house development of new products as well as on partnerships or outlicensing. This strategy is based on the observation that there are more opportunities for applying the AutoVac™ technology in a wide range of diseases than Pharmexa can exploit on its own. Consequently, Pharmexa focuses on in-house development of new drugs in the two areas, where the company has the greatest competencies: Cancer and inflammation. In these fields, on the other hand, Pharmexa aim to bring selected products as far into the clinical phases as the company's financial resources allow without third-party involvement. This is because the value growth to the company and its shareholders increases as the clinical phases are completed. Since the clinical phases are particularly costly, it would at some point become necessary to out-license rights to individual products to larger pharmaceutical companies.

AutoVac™ products targeting other diseases – but also certain types of cancer – are developed either in partnerships or through outlicensing agreements. Both setups are based on Pharmexa receiving agreed milestone payments and royalties from eventual sales.

Pharmexa's Research & Development portfolio

Target	Indication	Partner	Status
In-house research and development projects			
HER-2 DNA	Breast cancer		Preparation for Phase II
HER-2 Protein	Breast cancer		Preparation for Phase I
TNF-alpha	Rheumatoid arthritis		Preclinical development
RANKL	Osteoporosis		Research
Partnered research projects			
Undisclosed	Alzheimer's disease	H. Lundbeck	Preclinical develoment
Undisclosed	Veterinary applications	Schering-Plough	Research
Undisclosed	Immune modulation	Poseidon/NeuroSearch	Research

Pharmexa's own development portfolio

Pharmexa is focusing on the development of three new drugs: HER-2 DNA AutoVac™ and HER-2 Protein AutoVac™ - both against breast cancer - and TNF-alpha AutoVac™ against chronic inflammation, including rheumatoid arthritis. These disease areas represent some of the largest markets for new drugs.

HER-2 DNA AutoVac™

Pharmexa has completed the phase I/II trial with HER-2 DNA AutoVac™. The trial started in the autumn of 2001 at four different hospitals in Denmark and two in the UK, enrolling 27 women who had all been diagnosed with advanced, metastatic HER-2 positive breast cancer. The HER-2 cancer protein is found in 20-30% of all breast cancers and is usually associated with a poor prognosis for the patient.

The primary objective of the trial was to examine the safety of the HER-2 DNA AutoVac™

product, while the secondary purpose was to examine its ability to induce a so-called killer cell attack against cancer cells carrying the HER-2 protein and to observe any signs of a therapeutic effect on the cancer.

The results were promising:

- The product was safe in the 27 patients tested and was well tolerated by the patients at the three dose levels examined
- The product was capable of stimulating the patients' own immune system to launch a killer cell attack against HER-2, which is expressed on cancer cells
- The product appeared to have a positive effect on the tumor progression. Thus, a temporary but significant tumor reduction was found in two patients, and the disease stabilised in two other patients. One of these patients, who had bone metastases at the onset of the trial, showed a stable disease for a considerable period of time following the treatment.

Pharmexa is currently designing a phase II trial, which will be conducted in Europe. The purpose of this trial is primarily to examine product efficacy on tumors, its ability to stimulate the immune system and support the safety profile. The trial is expected to commence during the second quarter of 2003 and is expected to be completed in the beginning of 2005.

HER-2 Protein AutoVac™

As anticipated, developing the HER-2 Protein AutoVac™ vaccine proved slightly more complicated than developing HER-2 DNA AutoVac™. The reason is that a so-called recombinant protein molecule is involved, requiring a special production system. Pharmexa inlicensed this system from GlaxoSmithKline in 2001.

The necessary toxicological trials have been performed, re-confirming Pharmexa's high expectations for this product. Following a successful meeting with the US health authorities (the FDA), Pharmexa plans to test the product in the first human trial during 2003 in the US, following which the preliminary results are expected to be published by end 2003/early 2004.

TNF-alpha AutoVac™

Small amounts of the TNF-alpha protein play a role in the defence against certain bacteria-induced diseases such as tuberculosis. But when excessive amounts of TNF-alpha are produced, chronic inflammatory diseases such as Crohn's disease and rheumatoid arthritis may develop. More than five million people in the Western world suffer from rheumatoid arthritis, while about 500,000 suffer from Crohn's disease.

In 1997, Ferring acquired the rights to Pharmexa's AutoVac™ technology to develop a therapeutic vaccine against TNF-alpha. During the financial year, Pharmexa bought back the rights and has subsequently made significant progress towards developing a new product. Thus, a number of new molecules have been developed, possessing far better properties relative to the two TNF-alpha molecules used by Ferring.

Pharmexa expects to start phase I/II trials with these new TNF-alpha AutoVac™ molecules in early 2005.

Pharmexa's own research portfolio

As mentioned earlier, our HER-2 DNA AutoVac™, HER-2 Protein AutoVac™ and TNF-alpha AutoVac™ products are given primary attention, but we continue to carry out in-house projects with a very promising potential – primarily RANKL AutoVac™.

RANKL AutoVac™

Abnormal amounts of the RANKL protein in the bones are connected with the progression of diseases such as osteoporosis, rheumatoid arthritis and bone cancer. Osteoporosis by itself affects more than 40 million persons in the United States, and in 1999, the WHO estimated the total direct therapeutic costs in the North America and Europe to be more than USD 45 billion. Collaborating with scientists from the University of Tokyo, Pharmexa demonstrated significantly reduced bone loss in a mouse model of osteoporosis in women using the RANKL AutoVac™. Similarly, trials with mice using the AutoVac™ technology demonstrated that bone destruction as a result of rheumatoid arthritis was reduced by more than 80%.

IL5 AutoVac™

The development of this project was put on hold during 2002. The reason is primarily that two other pharmaceutical companies have had disappointing results concerning the effect of monoclonal antibodies targeting the IL5 protein in asthma patients. These companies have not been able to reproduce the positive results from mouse experiments in humans. One of these companies, US-based Schering-Plough, consequently discontinued developing its IL5 antibody.

Pharmexa has demonstrated a highly beneficial effect on the lung function using IL5 AutoVac™ also in preclinical trials, but the failure of other companies to reproduce their mouse model results in patients means that it is so far too risky to continue the project, particularly given the present lack of an explanation why the beneficial effect demonstrated in mice apparently fails to show in humans. Thus, Pharmexa's decision is not ascribable to shortcomings in the AutoVac™ technology – rather it illustrates the risk involved in selecting targets.

However, the second company, GlaxoSmithKline, has continued its clinical trials. Should these trials yield new promising results, Pharmexa will be prepared to resume the development of IL5 AutoVac™.

Pharmexa's partnerships

H. Lundbeck

Following years of intensive research, H. Lundbeck and Pharmexa have now jointly demonstrated that AutoVac™ in animal models have the desired therapeutic effect on a protein that causes Alzheimer's disease.

Spurred by this breakthrough, which is the result of H. Lundbeck's long-standing expertise in Alzheimer's disease and Pharmexa's expertise in developing protein-based drugs for active immunotherapy, H. Lundbeck decided in December 2002 to proceed with the project. Pharmexa and H. Lundbeck now need to finally select the AutoVac™ molecule to be used in the first clinical trial in humans.

So far, it has been shown, also in animal models, that an AutoVac™ product against Alzheimer's disease would represent an actual treatment of the disease.

The decision to proceed, and the subsequent extension of the agreement, triggered the agreed milestone payment to Pharmexa. If the product is successfully developed, Pharmexa will receive milestone payments of up to DKK 150 million as well as royalties of any subsequent product sales.

Alzheimer's disease is a chronic and deadly neurological disease that attacks and destroys the communication between brain cells and nerves, primarily in people over the age of 65. It is estimated that about every tenth person above the age of 65 suffers from the disease. An estimated eight million people in the United States and Europe are affected, and current treatments are limited to symptom relief. According to the Alzheimer's Association, the United States spends USD 80-100 billion per year on treating the consequences of the disease. Thus, there is a great need for drugs that offer an actual therapeutic effect.

Schering-Plough Animal Health

In March 2000, Pharmexa signed a broad and global license agreement with Schering-Plough Animal Health regarding the use of the AutoVac™ technology in the veterinary field. Pharmexa still owns all human applications of results obtained by Schering-Plough with the AutoVac™ technology. Schering-Plough has paid to Pharmexa a technology transfer fee and will pay upfront and milestone payments on each product. Pharmexa will eventually also receive a share of Schering-Plough's profit from product sales. In December 2001, the exclusivity period of this agreement was extended to September 2003.Pharmexa is very pleased with the collaboration.

Poseidon Pharmaceuticals A/S

Pharmexa entered into a joint research collaboration with NeuroSearch A/S in the autumn of 2000 with the purpose of further exploring and identifying small molecule based potassium (IK) channel modulators that might affect the T-cell function. In late 2001, NeuroSearch spun out part of the IK channel activities, including the collaboration with Pharmexa, in a new company, Poseidon. Pharmexa believes that the collaboration with Poseidon could lead to the discovery of therapeutically relevant compounds with immunosuppressive properties for use in the treatment of organ transplantations or autoimmune diseases such as rheumatoid arthritis. Existing drugs have serious adverse side effects and there is a great need for new and better treatment options. Furthermore, such compounds could possibly be used in combination with AutoVac™ products.

Lexigen/Merck KGaA

In late 2001, Pharmexa signed an agreement with Lexigen Pharmaceuticals Corp. (USA). Under the agreement, Lexigen received a one-year exclusive option to acquire an exclusive license to a therapeutic cancer vaccine based on Pharmexa's patented AutoVac™ technology. The agreement covers one cancer target, which the parties decided not to disclose. The option expired in the end of 2002, but Lexigen has indicated that it may wish to extend it.

Inoxell will be wound up and closed

Pharmexa owns 83.33% of Inoxell, whose activities build on the CellScreen™ technology, originally developed by Pharmexa. The other shareholders are LP Pensions and Dansk Erhvervsinvestering. Inoxell has focused its research activities on immunology and metabolic diseases – areas in which the company's scientists and management have great expertise. A number of complementary technologies have been developed or introduced to enhance the business concept. Inoxell is working to identify and validate new drug targets on its own and in collaboration with other pharmaceutical and biotech companies.

A number of financing options for Inoxell have been considered over a period, but it has not been possible to secure a basis for Inoxell's future operations. Today, Pharmexa has therefore agreed with Dansk Erhvervsinvestering and LP Pensions to wind up the activities in Inoxell. Inoxell's business area is outside Pharmexa's strategic focus, and it has been the intention since the foundation of Inoxell that the company should develop independently. It is highly regrettable that the company now has to close down, not least because of the very professional effort put in by Inoxell's excellent employees since the foundation in 2001. It is expected that the company can be settled solvently and notice has been given to the employees regarding the layoff.

Financial review 2002

Management's discussion and analysis of results of operations and financial condition

Net revenue

Net revenue in the Pharmexa Group totalled kDKK 30,061 in 2002 compared with kDKK 19,913 in 2001, equivalent to a 51% increase. Revenue consisted primarily of research funding provided under the collaborative agreements with H. Lundbeck, AstraZeneca and Lexigen.

Research costs

Research costs increased by 20% to kDKK 91,706 in 2002 from kDKK 76,419 in 2001. This amount included research costs of kDKK 21,304 in Inoxell. The increase in research costs is mainly due to a larger headcount in research and an increase in the overall activity level in 2002. Research costs are mainly internal costs and are largely dependent on the number of scientists.

Development costs

Development costs increased by 155% to kDKK 66,763 in 2002 from kDKK 26,169 in 2001. Development costs are mostly driven by direct expenses associated with the company's clinical programmes against breast cancer. Most of the direct expenses are external costs of e.g. toxicology studies, manufacturing the drug for human trials and clinical costs. Staff salaries represent a smaller proportion of development costs. Inoxell incurred no development costs.

Administrative expenses

Administrative expenses increased by 6% to kDKK 20,434 in 2002 from kDKK 19,193 in 2001. This amount includes administrative expenses of kDKK 3,236 in Inoxell.

Financial items

The Pharmexa Group's financial income decreased to kDKK 10,773 in 2002 from kDKK 19,061 in 2001. The Group's marketable securities, cash and cash equivalents totalled kDKK 174,824 at December 31, 2002 against kDKK 309,313 in 2001.

Financial expenses amounted to kDKK 2,864 in 2002 compared to kDKK 4,171 in 2001. Financial expenses consist primarily of interest on Pharmexa's loan with the Business Development Finance of kDKK 1,948 and exchange rate adjustments of kDKK 681 at December 31, 2002.

Net financial items represented an income of kDKK 7,909 in 2002 compared with kDKK 14,890 in 2001.

Net loss

The Pharmexa Group reported a net loss of kDKK 137,870 in 2002 compared with kDKK 86,192 in 2001, equivalent to a 60% increase. The minority share of Inoxell amounts to kDKK 3,120. The net loss in 2002 was substantially higher than the net loss in 2001. Since the level of activity and the headcount were notably higher in 2002 than in 2001, the higher loss is mainly attributable to the increasing research and development costs. The net loss reported for 2002 was in line with the company's forecasts as announced previously.

Balance sheet items

The Pharmexa Group's assets totalled kDKK 220,455 at December 31, 2002 compared to kDKK 350,393 the year before. Shareholders' equity amounted to kDKK 144,694 in 2002 compared to kDKK 282,264 in 2001. The decrease is mainly due to the increasing research and development costs. In the course of the year, Pharmexa entered into a sale-and-leaseback transaction amounting to kDKK 12,083, causing an increase in non-current liabilities from kDKK 25,964 in 2001 to kDKK 35,545 in 2002. Minority interests in Inoxell amounted to kDKK 10,900 at December 31, 2002.

Current liabilities increased from kDKK 28,145 in 2001 to kDKK 29,316 in 2002 equivalent to a 4% increase. The increase was caused by a combination of a decline in trade payables, a decline in deferred revenue and a kDKK 3,669 increase in the short-term portion of the lease obligation.

Capital resources and liquidity

Like other biotechnology companies, the Pharmexa Group will operate at a loss for a number of years and is therefore dependent on continuous capital contributions until the company's activities start to yield a profit. The Pharmexa Group reported a kDKK 137,870 loss for the financial year 2002 and had marketable securities, cash and cash equivalents of kDKK 174,824 at year end 2002. Assuming no further cash contributions, Pharmexa expects the present capital resources to be sufficient to cover operations into Q2, 2004.

Cash flow statement

The cash flows for the year are negative in the amount of kDKK 270,672 and primarily relate to operating activities and investments in marketable securities. The cash outflows for the year from operating activities increased to kDKK 125,989 from kDKK 78,316, corresponding to a 61% increase caused primarily by increasing research and development activities. At the end of 2002 a kDKK 136,063 investment in marketable securities was made. As a result of the increase in activity, net investments of kDKK 20,223 were made in intangible and tangible fixed assets. Cash flows from financing activities primarily derive from a sale-and-leaseback arrangement for kDKK 12,083.

Risks

New and existing shareholders in Pharmexa should be aware that investing in Pharmexa involves a high degree of risk. There can be no assurance that the research and development efforts will be successful, or that any of the company's products will obtain regulatory approval or market acceptance.

Furthermore, there can be no assurance that Pharmexa will be able to enter into new collaborative agreements in the future, that existing collaborative agreements will not be terminated and that the patent portfolio will be sufficiently broad to cover products resulting from research and development activities, or that the patents will not be challenged or circumvented.

Failure to meet any of these and other important company objectives could have a serious adverse impact on the financial results of Pharmexa, as well as on the price of Pharmexa's shares on the Copenhagen Stock Exchange.

Scientific risk

Pharmexa has a number of AutoVac™ programmes in various stages of research, preclinical and clinical development and expects to add more over the coming years, alone or in collaboration with partners. There is a risk that none of these products will

reach the market.

It is important to distinguish between two types of "scientific risk" in connection with Pharmexa's activities:

Technology risk

Technology risk is the risk that the AutoVac™ technology will not work in humans, as it has in numerous animal models. However, Pharmexa regards this risk as limited: the AutoVac™ technology has so far successfully been applied in animals on nine different disease targets. Proof of concept has been obtained in 14 different animal models, and the technology has so far been shown to work in six different animal species and in humans. Independent academic and industry labs all over the world have confirmed the results obtained by Pharmexa. The first human data was received towards the end of 2002, confirming the company's expectations to the technology.

Target risk

Target risk is the risk that Pharmexa applies the AutoVac™ technology on the wrong disease target. The company has a database containing more than 150 disease targets on which it may be relevant to apply the AutoVac™ technology. However, not all these targets will be suitable for treatment and targets may be more or less validated. Pharmexa takes a portfolio approach when selecting new targets. The company has initially selected "safe" targets, such as HER-2 and TNF-alpha. These two targets are validated by marketed products (Herceptin and Remicade respectively) so it is known that they are safe, therapeutically relevant targets. As the AutoVac™ technology has become more validated some of the targets Pharmexa has selected have been less validated, such as RANKL, which carries great returns if successful. It is important to emphasise that if a disease target is selected that later turns out unsuccessful, all is not lost: Pharmexa can then go back to the Auto-Vac™ technology and select a new target. That is why AutoVac™ is a platform technology. One example of target risk is Pharmexa's product against the disease protein IL5, which was shelved by the company during 2002, even though preliminary animal models had shown promising results. In trials performed by other companies, this target proved to behave differently in humans than in animals. Pharmexa and other companies have experienced several such "target" disappointments in 2002, and in this respect, it is particularly encouraging that Pharmexa's most advanced products are directed towards the most safe targets in the market today: HER-2 and TNF-alpha.

Capital

There is also a risk associated with raising additional capital in the future. The Pharmexa Group had a solid financial position with kDKK 174,824 in marketable securities, cash and cash equivalents at year-end 2002. It would constitute a problem under the present business model, if it should prove impossible to raise additional financing, either through collaboration agreements or via the capital markets. In Pharmexa's opinion, financing will be available to biotech companies that continue to demonstrate progress in their pipeline and which are seen to create value for their shareholders. If Pharmexa in the future fails to raise sufficient additional financing, it may prove necessary to further reduce the company's product portfolio. In that case, Pharmexa intends to continue to give priority to the most advanced products.

Financial risks

Due to operation, investments and financing, the Pharmexa Group is not especially exposed to changes in exchange rates. The Group is exposed to changes in the level of

interest rates when investing the excess proceeds of the stock exchange listing, which is expected to be applied for future research and development. The company does not use financial instruments to hedge any risks or for speculative purposes.

Other reports

Intellectual capital

The business base of the Pharmexa Group requires a strong focus on intellectual capital, as this is a precondition for the success of the company.

In order to be able to ensure the intellectual capital in the company it is necessary for the Group to attract and maintain highly qualified, highly educated staff as research and development activities increase.

Additional training and participation in scientific conferences for all scientific employees are included in the budget, and all employees are offered warrants in the company at the time of employment. See also the section regarding organisation and employees in the Annual Report 2002.

Incentive programmes

In Pharmexa's opinion, share-based incentive programmes can be a valuable tool in achieving the company's long-term objectives. Both Pharmexa and Inoxell have implemented a number of warrant schemes for its employees, and all permanent employees in the Group have warrants. Warrants issued to Inoxell's employees will cease in connection with the winding up of Inoxell's activities. These programmes are described in greater detail in the notes to the accounts.

Environmental matters

No significant environmental impacts are associated with the Pharmexa Group's activities.

Related-party transactions

Pharmexa has entered into a management agreement with the subsidiary Inoxell, according to which Inoxell initially buys certain services from Pharmexa. These services include assistance relating to IT, patents, bookkeeping and financial matters and access to Pharmexa's canteen and certain research facilities. The parties believe that the management agreement reflects arm's length conditions. The agreement will cease in connection with the winding up of Inoxell's activities.

There have been no other related party transactions.

Post balance sheet events

No material events have been recorded since the end of the financial year 2002 until March 5, 2003, with the exception of the staff reduction described above, and the decision to wind up the activities of Inoxell described on page 9.

Changes in the Board of Directors

On Pharmexa's Annual General Meeting on May 2, 2002, Roger Brimblecombe, Chairman of the Board of Directors, resigned from the Board due to age, and Claus Bræstrup, DMSc, was elected as a new board member at the Extraordinary General Meeting on

August 21, 2002. The Board of Directors subsequently elected Claus Bræstrup as its new Chairman. For a number of years, Claus Bræstrup has worked as a scientist, and he has worked as an Adjunct Professor in Neuroscience at the University of Copenhagen. He has also held positions as a scientist and management positions with Ferrosan and Novo Nordisk. Before taking up his current position as chief scientific officer with H. Lundbeck A/S in 1998, Claus Bræstrup was Head of Clinical Drug Development with Schering AG in Berlin from 1994-1998. Claus Bræstrup is the author of more than 125 scientific publications and the inventor of several patents. He is Chairman of the Board of Directors of BRIC (Biotech Research and Innovation Center) and a board member of Combio A/S and Homos Medical Corporation.

Changes in management

As a result of the organisational adjustments in January 2003, Birger Borregaard, COO, left Pharmexa. The Executive Management of Pharmexa A/S subsequently consists of Søren Mouritsen, CEO, and Jakob Schmidt, CFO.

Financial statements

Income statement for the period January 1 – December 31

	Group		Parent company	
	2002	**2001**	**2002**	**2001**
	kDKK	kDKK	kDKK	kDKK
Net revenues	**30,061**	**19,913**	**25,249**	**13,830**
Research costs	-91,706	-76,419	-70,402	-64,981
Development costs	-66,763	-26,169	-66,763	-26,169
Administrative expenses	-20,434	-19,193	-17,198	-18,108
Operating profit/(loss)	**-148,842**	**-101,868**	**-129,114**	**-95,428**
Other operating income	31	99	31	99
Other operating expenses	-88	-276	-79	-276
Profit/(loss) before net financials	**-148,899**	**-102,045**	**-129,162**	**-95,605**
Profit/(loss) from investments in Subsidiaries before tax		-	-15,597	-4,814
Other financial income	10,773	19,061	9,692	18,372
Other financial expenses	-2,864	-4,171	-2,803	-4,145
Profit/(loss) before tax	**-140,990**	**-87,155**	**-137,870**	**-86,192**
Corporation tax	0	0	0	0
Profit/(loss) before minority interests	**-140,990**	**-87,155**	**-137,870**	**-86,192**
Minority interests' share of net income/(loss) from subsidiaries	3,120	963	0	0
Net income/(loss)	**-137,870**	**-86,192**	**-137,870**	**-86,192**

Settlement of loss

	2002	2001
	kDKK	kDKK
Settlement of loss:		
Loss carried forward offset against share premium	-137,870	-86,192
	-137,870	**-86,192**

Balance sheet at December 31

Assets

	Group		Parent company	
	2002	**2001**		**2001**
	kDKK	kDKK	kDKK	kDKK
Licences and rights	3,438	3,623	3,438	3,623
Intangible assets	**3,438**	**3,623**	**3,438**	**3,623**
Plant and machinery	21,127	14,181	15,630	12,032
Other fixtures and fittings, tools and equipment	6,140	6,108	5,240	4,875
Leasehold improvements	3,830	3,802	3,604	3,802
Prepayments for tangibles fixed assets and tangible fixed assets under construction	5,231	1,961	5,231	609
Tangible fixed assets	**36,328**	**26,052**	**29,705**	**21,318**
Investments in subsidiaries	-	-	4,502	20,099
Financial assets	**0**	**0**	**4,502**	**20,099**
Non-current assets	**39,766**	**29,675**	**37,645**	**45,040**
Finish goods	**7**	**8**	**7**	**8**
Trade receivables	0	1,644	0	1,644
Receivables from subsidiaries	0	0	0	23
Other receivables	3,893	8,413	3,891	1,736
Prepayments and accrued income	1,965	1,340	1,108	750
Receivables	**5,858**	**11,397**	**4,999**	**4,153**
Marketable securities	**136,183**	**0**	**136,183**	**0**
Cash and cash equivalents	**38,641**	**309,313**	**28,915**	**275,910**
Current assets	**180,689**	**320,718**	**170,104**	**280,071**
Assets	**220,455**	**350,393**	**207,749**	**325,111**

Balance sheet at December 31

Equity and liabilities

		Group		Parent company	
		2002	**2001**	**2002**	**2001**
		kDKK	kDKK	kDKK	kDKK
Share capital		40,999	40,962	40,999	40,962
Share premium		103,695	241,302	103,695	241,302
Retained profit/(loss)		0	0	0	0
Equity		**144,694**	**282,264**	**144,694**	**282,264**
Minority interests		**10,900**	**14,020**	**0**	**0**
Deferred tax		0	0	0	0
Provision		**0**	**0**	**0**	**0**
Loan from Business Development Finance (Vækstfonden)		27,911	25,964	27,911	25,964
Financial leasing agreements		7,634	**0**	7,634	**0**
Non-current liabilities		**35,545**	**25,964**	**35,545**	**25,964**
Financial leasing agreements		3,669	**0**	3,669	**0**
Trade payables		10,141	11,903	9,406	7,052
Payables to subsidiaries		-	-	45	0
Other payables		11,366	9,747	10,250	8,148
Deferred income		4,140	6,495	4,140	1,683
Current liabilities		**29,316**	**28,145**	**27,510**	**16,883**
Liabilities		**64,861**	**54,109**	**63,055**	**42,847**
Equity and liabilities		**220,455**	**350,393**	**207,749**	**325,111**

Statement of changes in equity

	Number of shares	Share capital	Share premium	Loss carried forward	Total
		kDKK	kDKK	kDKK	kDKK
Group and parent company					
Equity at January 1, 2002	**4,096,230**	**40,962**	**241,302**	**0**	**282,264**
Capital increase by exercising warrants	3,750	37	263	-	300
Net income/(loss)	-	-	-	-137,870	-137,870
Transfer to cover loss	-	-	-137.870	137,870	0
Equity at December 31, 2002	**4,099,980**	**40,999**	**103,695**	**0**	**144,694**
Equity at January 1, 2001	**4,094,980**	**40,950**	**327,492**	**0**	**368,442**
Capital increase by exercising warrants	1,250	12	88	-	100
Share of costs in connection with formation of Inoxell A/S	-	-	-	-86	-86
Net income/(loss)	-	-	-	-86,192	-86,192
Transferred to cover loss	-	-	-86,278	86,278	0
Equity at December 31, 2001	**4,096,230**	**40,962**	**241,302**	**0**	**282,264**

Movements on the Share capital:

	2002	**2001**	**2000**	**1999**	**1998**
	kDKK	kDKK	kDKK	kDKK	kDKK
Share capital at the beginning of period	**40,962**	**40,950**	**4,989**	**4,528**	**4,528**
Capital increase	37	12	35,961	461	0
Share capital at the end of period	**40,999**	**40,962**	**40,950**	**4,989**	**4,528**

Consolidated cash flow statement for the period January 1 – December 31

	2002 kDKK	2001 kDKK
Profit/(loss) before minority interest	-140,990	-87,155
Adjustments	2,222	-7,398
Change in working capital	3,042	-465
Cash flows from operating activities before net financials	-135,726	-95,018
Interest received, etc	10,653	19,061
Interest paid, etc	-916	-2,359
Cash flows used in operating activities	**-125,989**	**-78,316**
Purchase of intangible assets	-742	-4,090
Purchase of tangible fixed assets	-20,453	-13,568
Sale of tangible fixed assets	972	255
Purchase of marketable securities	-136,063	0
Cash flows used in investing activities	**-156,286**	**-17,403**
Share capital increase	300	100
Financial sale-and-lease-back arrangement	12,083	0
Repayment financial leases	-780	0
Capital contribution from minority interests in connection with formation of subsidiary	0	15,000
Expenses in connection with formation of Inoxell A/S	0	-104
Cash flows from investing activities	**11,603**	**14,996**
Change in cash and cash equivalents	**-270,672**	**-80,723**
Cash and cash equivalents at January 1	309,313	390,036
Cash and cash equivalents at December 31	**38,641**	**309,313**