



**ARPIDA INTERIM RESULTS FOR SIX MONTHS TO JUNE 30<sup>th</sup>, 2006**

**Iclaprim ASSIST-1 trial reaches 80% of total enrolment**

**Operations in USA established**

**Muenchenstein / Basel, Switzerland, August 15<sup>th</sup>, 2006.** Arpida Ltd (SWX : ARPN) announced today its financial interim results for the six months ended June 30<sup>th</sup>, 2006 as well as the pipeline progress in the year to date.

**Highlights 2006 to date:**

- The independent Data and Safety Monitoring Board (DSMB) has reviewed data on 80% of the total number of patients to be enrolled in ASSIST-1 (the first of two Phase III trials with intravenous iclaprim in complicated Skin and Skin Structure Infections) and re-iterated their recommendation to continue the Phase III programme as designed.
- AR-709 moves into first-in-man clinical studies.
- Dr Jürgen Raths, who has extensive expertise in international sales and marketing in the pharmaceutical industry, appointed to the Board of Directors of Arpida Ltd.
- Arpida Inc. established in the USA to facilitate preclinical and clinical programmes. Prof John G. Bartlett, a former President of Infectious Diseases Society of America (IDSA) and currently Chair of the Antimicrobial Availability Task Force of IDSA, joins the Board of Directors of Arpida Inc.
- Cash used in operating activities amounted to CHF 24.0 million in the first half of 2006.

Dr Khalid Islam, President and CEO said: "During the first half of 2006, we have continued to make excellent progress across our pipeline of preclinical and clinical compounds while maintaining good financial discipline. We have delivered on many of the milestones that we anticipated for this year, and I am particularly pleased that we have moved AR-709, our second compound and the first originated at Arpida, into clinical studies. We have also made excellent progress with our lead investigational antibiotic, intravenous iclaprim, and have now enrolled 80% of the total number of patients into the first of our two Phase III trials. We now look forward to completing enrolment in this trial and obtaining the top-line data around the end of the year.

Furthermore, we have now established a presence in the USA thereby further strengthening our organisation. Moreover, I very much welcome the appointment of Dr Jürgen Raths to our Board of Directors. I am convinced he will make valuable contributions to our development as iclaprim reaches the final stages of its clinical programme. To date, Arpida has delivered on important milestones and we look forward to exciting developments in the months ahead."

## Financial review for six months to June 30<sup>th</sup>, 2006

### Key financial indicators

(CHF million)	2006 H1	2005 H2	2005 H1
Research and development expenses	(23.9)	(15.8)	(13.4)
Management and general expenses	<u>(4.6)</u>	<u>(4.6)</u>	<u>(2.7)</u>
Total operating expenses	(28.5)	(20.4)	(16.1)
Net result	(27.9)	(20.0)	(15.1)
Cash and financial investments end of period	98.6	122.4	145.4
Equity end of period	104.9	130.9	150.4

### Balance sheet / cash flow

As of June 30<sup>th</sup>, 2006, the cash and cash equivalent position, together with the financial investment position stood at CHF 98.6 million, a decline of CHF 23.8 million versus year-end 2005.

For the first six months of 2006, cash used in operating activities amounts to CHF 24.0 million. For the full year 2006, cash used in operating activities is expected to remain below CHF 50 million.

Cash and cash equivalents are invested in risk free Swiss Franc denominated money market accounts or remain available on a short term basis in current accounts held with leading financial institutions.

Plant and equipment as of June 30<sup>th</sup>, 2006 remained at the level of year-end 2005.

Goodwill stemming from the acquisition of Arpida A/S in October 2004 remained unchanged except for minor currency fluctuations. This goodwill will be subject to the annual impairment test by year-end. In accordance with IFRS, goodwill is not amortised.

Accrued and other current liabilities increased to CHF 6.2 million primarily in conjunction with the ongoing Phase III clinical trials with iclaprim.

The annual general meeting of shareholders of April 5<sup>th</sup>, 2006 approved the appropriation of the accumulated loss in the Statutory accounts. The accumulated Statutory loss of CHF 45.4 million was compensated with an equal amount of share premium in the general reserves. This concerns a movement within equity and has no impact on the total amount. Arpida has no access to bank credit facilities and has no interest bearing debt.

### Income Statement

As stated earlier, Arpida has chosen to fully fund the ongoing Phase III clinical trials with iclaprim. As a result, development costs increased as planned and, together with the expenses for research, reached CHF 23.9 million for the first six months of 2006, a CHF 8.1 million increase versus H2 2005. Management and general expenses remained at the level of the second half of 2005.

Interest income increased to CHF 0.6 million in the first of 2006 (first half of 2005: CHF 0.4 million). In the first half of 2006, no substantial foreign exchange effects were recorded.

As in previous periods, no revenues were generated and no income taxes were paid.

### **Shareholder structure**

After the expiration of the twelve months post-IPO lock-up of the pre-IPO shareholders the free-float of Arpida's shares reached 100% on May 4<sup>th</sup>, 2006 and remained at that level.

During the first half of 2006, two shareholders stated that their holdings had fallen below the 5% reporting threshold: HBM Bioventures and 3i Group plc.

On July 29<sup>th</sup>, 2006, Fidelity International Limited reported an interest of 6.29% in Arpida's shares.

As per mid-August 2006, Arpida has three shareholders with stakes above 5%: Deutsche Bank Group, Health Cap Funds and Fidelity. In accordance with SWX Swiss Exchange these stakes are considered free-float.

During the first half of 2006, 142,056 registered shares were issued due to the exercise of options under the company's stock option plans. At 30 June 2006, the number of shares issued stood at 16,514,015 (+0.9% versus year-end 2005).

## **Pipeline Development**

Arpida made significant progress in developing its portfolio of candidate products during the first six months of 2006.

### **Intravenous iclaprim – Phase III trials in complicated Skin and Skin Structure Infections (cSSSI)**

In March, a major milestone was reached when an independent Data and Safety Monitoring Board (DSMB) recommended the continuation of the Phase III clinical trials for intravenous iclaprim for the indication cSSSI. The DSMB made its recommendation after a planned review of clinical data from the ongoing ASSIST-1 (Arpida's Skin and skin Structure Infection Studies) trial. The DSMB reviewed data on approximately 40% of the total number of patients to be enrolled into ASSIST-1, the first of the two ASSIST trials, and concluded that there were no safety concerns that would justify changes to be made to the clinical study design for either trial.

After examining data on an additional 40% of the total number of patients in ASSIST-1, the DSMB recently reiterated this recommendation.

Arpida expects to complete enrolment in ASSIST-1 in the coming weeks. Top-line results are expected around year-end 2006. Completion of the currently ongoing ASSIST-2 trial is expected to follow some months later. Based on these expectations, intravenous iclaprim remains on track for an NDA (New Drug Application) filing in 2007.

## **Intravenous iclaprim – Hospital acquired pneumonia**

As outlined in March 2006, Arpida is weighing its options for the development of additional indications for iclaprim. Nosocomial (hospital-acquired) pneumonia is the second indication under consideration, after cSSSI. Iclaprim's potential in this indication is supported by results of a special Phase I study, executed in 2005, confirming that iclaprim achieves high concentrations in the specific compartments of the lung where clinically relevant pathogens, including MRSA, are most commonly found.

## **Oral iclaprim – Potential for new treatment alternatives**

The results of two Phase I clinical trials with oral iclaprim, published in January and February of this year, showed good bioavailability and confirmed that oral administration of iclaprim could achieve blood levels comparable with those of therapeutic doses of intravenous iclaprim.

Additional Phase I trials are currently ongoing.

## **AR-709 – Entering the clinic**

AR-709 originates from Arpida's own drug discovery efforts. It is a bactericidal antibiotic that Arpida is developing for the treatment of upper and lower Respiratory Tract Infections (RTI) contracted in the community setting.

In May this year, Arpida published results from *in vitro* microbiological studies that confirmed the potent activity of AR-709 against a large number of clinical isolates of multidrug-resistant pneumococci.

The compound recently reached a major milestone when Arpida received authorisation to start first-in-man studies in the United Kingdom. This exploratory microdose study in healthy volunteers, due to be completed by the end of this year, is expected to yield important pharmacological information for the further clinical development of AR-709.

Arpida will be presenting data on AR-709 to the scientific community at the 46<sup>th</sup> annual Interscience Conference on Antimicrobial agents and Chemotherapy (ICAAC), which will take place in San Francisco, USA at the end of September 2006.

## **Preclinical programmes – Building the pipeline behind iclaprim**

Arpida's research efforts are aimed at finding new chemical entities to address current and emerging medical needs. The focus is on the following:

### **1. Topical programme**

Arpida continues its research work on a new chemical series showing good *in vitro* activity against Gram-positive and anaerobic pathogens. The compounds of this series appear to have the appropriate characteristics for development in several topical indications (e.g. prevention and treatment of, among others, MRSA skin infections).

In recent years topical antibiotics used in preventive medicine have seen a large increase in resistance and represent an important emerging need.

Studies are progressing as planned in order to achieve proof of concept and move to preclinical development.

## 2. Gastrointestinal programme

A second key research focus concerns molecules of different series possessing very good *in vitro* activity against *Clostridium difficile*. These molecules have potential for the treatment and prevention of serious gastrointestinal infections, including those caused by the emerging and difficult to treat multi-drug resistant *Clostridium difficile*.

Increasingly, reports identify *Clostridium difficile* as a health threat. A recent report by the UK Health Protection Agency showed an alarming increase in the number of *Clostridium difficile* associated disease (CDAD) cases in people over the age of 65 years, the age group particularly at risk from this bacterium. In 2005, 51,690 cases were reported, an increase of 17% over the number in 2004. And according to the UK Office for National Statistics, *Clostridium difficile* was mentioned as the underlying cause of death in more than 1,200 cases in England and Wales in 2004.

Studies are on track to obtain proof of concept.

## Geographical expansion

In May 2006, Arpida Ltd. incorporated a US company under the name Arpida Inc. Actual operations got underway early August. This is the first step into the North-American market which is crucially important both from a scientific, strategic and economical perspective. Arpida Inc. currently consists of a team of seven, led by highly experienced executives. Dr Khalid Islam, President and CEO of Arpida Ltd and Prof John G. Bartlett have joined the Board of Directors of Arpida Inc.

Prof John G. Bartlett, Chief of the Division of Infectious Diseases at the prestigious Johns Hopkins University School of Medicine, is a leading expert in the treatment and management of infectious diseases. He is a former President of the Infectious Diseases Society of America (IDSA) and is currently Chair of the Antimicrobial Availability Task Force of IDSA. Prof Bartlett has authored over 800 publications and is on the editorial boards of 12 journals. Since April 2005, he has been a member of the Scientific Advisory Board of Arpida Ltd.

Arpida Inc. has its registered office in Delaware and will primarily be active in preclinical research and in facilitating Arpida's clinical trials in the USA.

## Organisation

In the extraordinary general meeting of July 19<sup>th</sup>, 2006, Arpida's shareholders approved the appointment of Dr. Jürgen Raths as a non-executive member of the Board of Directors of Arpida Ltd. Dr. Raths (aged 50) is a distinguished expert in commercialising drugs for hospital use and has more than 15 years experience in international sales and marketing in the pharmaceutical industry. He is currently Head of Critical Care Europe for global pharmaceutical group Eli Lilly and Company, a role Dr Raths has held since 1999 and which involves managing Lilly's hospital-focused business. Prior to his current role, Dr Raths held positions within Eli Lilly in both the USA and Europe.

Dr Nicholas Coppard, formerly Head of Development, has left the company. Dr Paul Hadvary, a very experienced pharma executive who is closely involved in iclaprim's development process will succeed him on an ad-interim basis.

At the end of June 2006, Arpida had a headcount of 87, up from 82 at year-end 2005.

## Further information:

In order to provide more background to the results announcement as well as the pipeline progress, Arpida will host a conference call on 15 August 2006, at 3.30pm CET.

The dial-in numbers are:

**+41 (0) 91 610 56 00** (Europe)

**+44 (0) 207 107 0611** (UK)

**+ 1 (1) 866 291 4166** (USA)

The conference call (Call ID 323, followed by the #) will be available for play-back until 17 August by dialling:

**+41 (0) 91 612 43 30** (Europe)

**+44 (0) 207 108 6233** (UK)

**+ 1 (1) 866 416 2558** (USA)

Moreover, play-back will be possible from Arpida's website.

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### **About Arpida Ltd.**

Arpida (SWX: ARPN) is a biopharmaceutical company with research facilities near Basel, Switzerland, in Copenhagen, Denmark and in the USA. It focuses on the discovery and development of novel antibiotic drugs that seek to overcome the growing problem of bacterial resistance.

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. Arpida strongly believes that the availability of an oral formulation will be an important differentiating feature of iclaprim over virtually all of the antibiotics for the treatment of serious bacterial infections, particularly those caused by MRSA. Iclaprim can be offered not only as an intravenous therapy for hospital use in acute situations, but also as an oral formulation, allowing early patient discharge and outpatient treatment. This switch should 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 exhibited potent activity against 611 pneumococcal clinical isolates from Europe, the USA and Asia irrespective of the mechanisms of resistance to currently used drugs. AR-709 entered first-in-man studies in the UK in the second half of 2006.

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.*

*The appointment of Prof Bartlett to the Board of Directors of Arpida Inc. does not constitute or imply endorsement by the Johns Hopkins University or the Johns Hopkins Hospital and Health System.*

# Arpida Consolidated Financial Statements

## CONSOLIDATED BALANCE SHEETS (Unaudited)

(in CHF)	June 30 <sup>th</sup> , 2006	December 31 <sup>st</sup> , 2005
<b>Assets</b>		
<b>Non-current assets</b>		
Goodwill	6,034,847	6,000,378
Other intangible assets	44,700	122,115
Plant and equipment	2,962,816	3,103,925
Financial investments (rent deposit)	2,150,000	-
Other non-current receivables	-	-
Prepaid pension	184,651	114,613
<b>Total non-current assets</b>	<b>11,377,014</b>	<b>9,341,031</b>
<b>Current assets</b>		
Inventories	-	-
Prepayments	2,769,208	3,004,153
Other receivables	1,104,939	887,583
Cash and cash equivalents	96,498,940	122,420,409
<b>Total current assets</b>	<b>100,373,087</b>	<b>126,312,145</b>
<b>Total assets</b>	<b>111,750,101</b>	<b>135,653,176</b>
<b>Equities and liabilities</b>		
Share capital	3,302,803	3,274,392
Share premium	187,101,806	231,831,941
Other reserves (share-based compensation)	2,877,003	1,905,427
Cumulative translation differences	262,474	79,393
Accumulated loss	(88,688,318)	(106,212,682)
<b>Total equity</b>	<b>104,855,768</b>	<b>130,878,471</b>
<b>Current liabilities</b>		
Trade accounts payables	706,388	1,564,627
Accrued and other current liabilities	6,187,945	3,210,078
<b>Total current liabilities</b>	<b>6,894,333</b>	<b>4,774,705</b>
<b>Total equity and liabilities</b>	<b>111,750,101</b>	<b>135,653,176</b>

## CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(in CHF)	Six months to June 30 <sup>th</sup> , 2006	Six months to June 30 <sup>th</sup> , 2005
<b>Income from services</b>	-	-
Research and development	(23,927,037)	(13,359,332)
Management and general expenses	(4,586,977)	(2,727,079)
<b>Total operating expenses</b>	<b>(28,514,014)</b>	<b>(16,086,411)</b>
<b>Operating loss</b>	<b>(28,514,014)</b>	<b>(16,086,411)</b>
Financial income	630,649	990,611
Financial expenses	(19,379)	(4,006)
<b>Net loss before tax</b>	<b>(27,902,744)</b>	<b>(15,099,806)</b>
Income tax expense/benefit	-	-
<b>Net loss for the period</b>	<b>(27,902,744)</b>	<b>(15,099,806)</b>
<b>Basic and diluted loss per share</b>	<b>(1.70)</b>	<b>(1.19)</b>

## CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in CHF)	Six months to June 30 <sup>th</sup> , 2006	Six months to June 30 <sup>th</sup> , 2005
<b>Operating activities</b>		
Net loss for the period	(27,902,744)	(15,099,806)
Reversal of non-cash items:		
- Depreciation on tangible assets	759,232	585,086
- Amortisation on other intangible assets	78,005	77,156
- Interest on subordinated convertible loans	-	-
- Share based compensation charges	971,576	600,152
- Changes in the comp. of net working capital:		
- Change in inventories	-	489,939
- Change in other current & long-term receiv.	(217,357)	(231,727)
- Change in prepayments	234,945	(140,533)
- Change in acc. payable & accrued liabilities	2,119,628	2,679,295
- Change in prepaid pension	(70,038)	(1,941)
<b>Net cash used in operating activities</b>	<b>(24,026,753)</b>	<b>(11,042,379)</b>
<b>Investing activities</b>		
Plant and equipment purchases	(605,137)	(1,121,700)
Financial investments	(2,150,000)	-
Proceeds from the sale of intangible assets	-	64,330
<b>Net cash provided by / (used in) investing activities</b>	<b>(2,755,137)</b>	<b>(1,057,370)</b>
<b>Financing activities</b>		
Issuance of shares	725,385	97,200,000
Capital increase expenses	-	(7,941,039)
<b>Total cash provided by financing activities</b>	<b>725,385</b>	<b>89,258,961</b>
<b>Net increase / (decrease) in cash position</b>	<b>(26,056,505)</b>	<b>77,159,212</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>122,420,409</b>	<b>68,199,187</b>
Exchange gains / (losses) on cash and cash equivalents	135,036	(1,725)
Net increase in cash and cash equivalents	(26,056,505)	77,159,212
<b>Cash and cash equivalents, end of period</b>	<b>96,498,940</b>	<b>145,356,674</b>
Interest payment received as part of net cash used in operating activities	630,649	398,959

## Consolidated Statements of Equity (Unaudited)

	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 January 1<sup>st</sup>, 2005</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	-	-	-	-	-	-	600,152	-	-	600,152
Translation differences	-	-	-	-	-	-	-	(1,566)	-	(1,566)
Net loss for the period	-	-	-	-	-	-	-	-	(15,099,806)	(15,099,806)
<b>At June 30<sup>th</sup>, 2005</b>	<b>16,371,959</b>	<b>0</b>	<b>16,371,959</b>	<b>3,274,392</b>	<b>231,831,941</b>	<b>235,106,333</b>	<b>1,590,519</b>	<b>(71,855)</b>	<b>(86,270,828)</b>	<b>150,354,169</b>
<b>At December 31<sup>st</sup>, 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>
Compensation of share premium with general reserves	-	-	-	-	(45,427,108)	(45,427,108)	-	-	45,427,108	-
Exercise of stock options	142,056	-	142,056	28,411	696,973	725,384	-	-	-	725,384
Share-based compensation	-	-	-	-	-	-	971,576	-	-	971,576
Translation differences	-	-	-	-	-	-	-	183,081	-	183,081
Net loss for the period	-	-	-	-	-	-	-	-	(27,902,744)	(27,902,744)
<b>At June 30<sup>th</sup>, 2006</b>	<b>16,514,015</b>	<b>-</b>	<b>16,514,015</b>	<b>3,302,803</b>	<b>187,101,806</b>	<b>190,404,609</b>	<b>2,877,003</b>	<b>262,474</b>	<b>(88,688,318)</b>	<b>104,855,768</b>

## **Condensed Notes to the Consolidated Interim Financial Statements (Unaudited)**

### **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 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 retain key personnel, 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 2005, the International Accounting Standards Board (IASB) amended IFRS 6 ‘Exploration for and Evaluation of Mineral Resources’, IAS 39 ‘Financial Instruments: Recognition and Measurement’ regarding the Fair Value Option, the Cash Flow Hedging of Forecast Intragroup Transaction and the Transition and Initial Recognition of Financial Assets and Financial Liabilities, IAS 39 and IFRS 4 ‘Insurance Contracts’ regarding Financial Guarantee Contracts, IAS 21 ‘The Effects of Changes in Foreign exchange Rates’ regarding Net Investment in a Foreign Operation and IAS 19 ‘Employee benefits’ requiring additional disclosures and allowing the recognition of all actuarial gains and losses as they occur, outside profit or loss in a statement of total recognized gains and losses. In 2005, the IASB also published IFRS 7 ‘Financial Instruments: Disclosures’, replacing IAS 30 ‘Disclosure in the financial statements of banks and similar financial institutions’ and IAS 32 ‘Financial

Instruments: Disclosure and Presentation'. The adoption of these standards as of 1 January 2006 had no or only an immaterial impact on Arpida's consolidated financial statements.

### 3. Changes in the scope of consolidation

In 2006, the Company incorporated Arpida, Inc, in order to establish a presence in the USA. The results of Arpida, Inc. are included in the consolidated financial statements since incorporation on 11 May 2006.

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)	Six months to June 30 <sup>th</sup> , 2006	Six months to June 30 <sup>th</sup> , 2005
<b>Research &amp; development</b>		
Switzerland	(21,086,010)	(10,502,557)
Outside Switzerland	(2,841,027)	(2,856,775)
<b>Total research &amp; development</b>	<b>(23,927,037)</b>	<b>(13,359,332)</b>
<b>Management &amp; general expenses</b>		
Switzerland	(4,100,313)	(2,471,277)
Outside Switzerland	(486,664)	(255,802)
<b>Total management &amp; general expenses</b>	<b>(4,586,977)</b>	<b>(2,727,079)</b>
<b>Total operating expenses</b>	<b>(28,514,014)</b>	<b>(16,086,411)</b>

### 5. Shareholders Equity

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 at year-end 2005.

On 31 December 2005, the Company had 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.

During the first half of 2006, 142,056 registered shares were issued due to the exercise of options under the company's stock option plans. At 30 June 2006, the number of shares issued stood at 16,514,015 (+0.9% versus year-end 2005). The conditional share capital for the potential issuance of registered shares amounted to 1,792,944.

## **6. Events subsequent to the June 30<sup>th</sup>, 2006 balance sheet date**

The extraordinary general meeting of shareholders of July 19<sup>th</sup>, 2006 approved the creation of authorised capital of CHF 340,000. The shareholders also approved the increase in the conditional capital from CHF 387,000 to CHF 487,000.

## **7. Commitments and contingencies**

In October 2005, the company entered into a rental contract for office and laboratory space in the 'TechCenter Reinach' in Reinach, Switzerland, starting December 1<sup>st</sup>, 2006. The rental period is 15 years unless it is terminated earlier or extended. In 2006, the Company entered into a commitment to buy equipment of CHF 2.6 million which will be used in the new facility.

## **8. Legal Proceedings**

Arpida is not involved in legal proceedings.