MEDIGENE AG 2001

ANNUAL REPORT II

Competence in cardiac and cancer diseases...

MediGene

MediGene’s Success Factors

Outstanding Product Pipeline

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Broad Portfolio of Technologies

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Solid Funding

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First Class Partners

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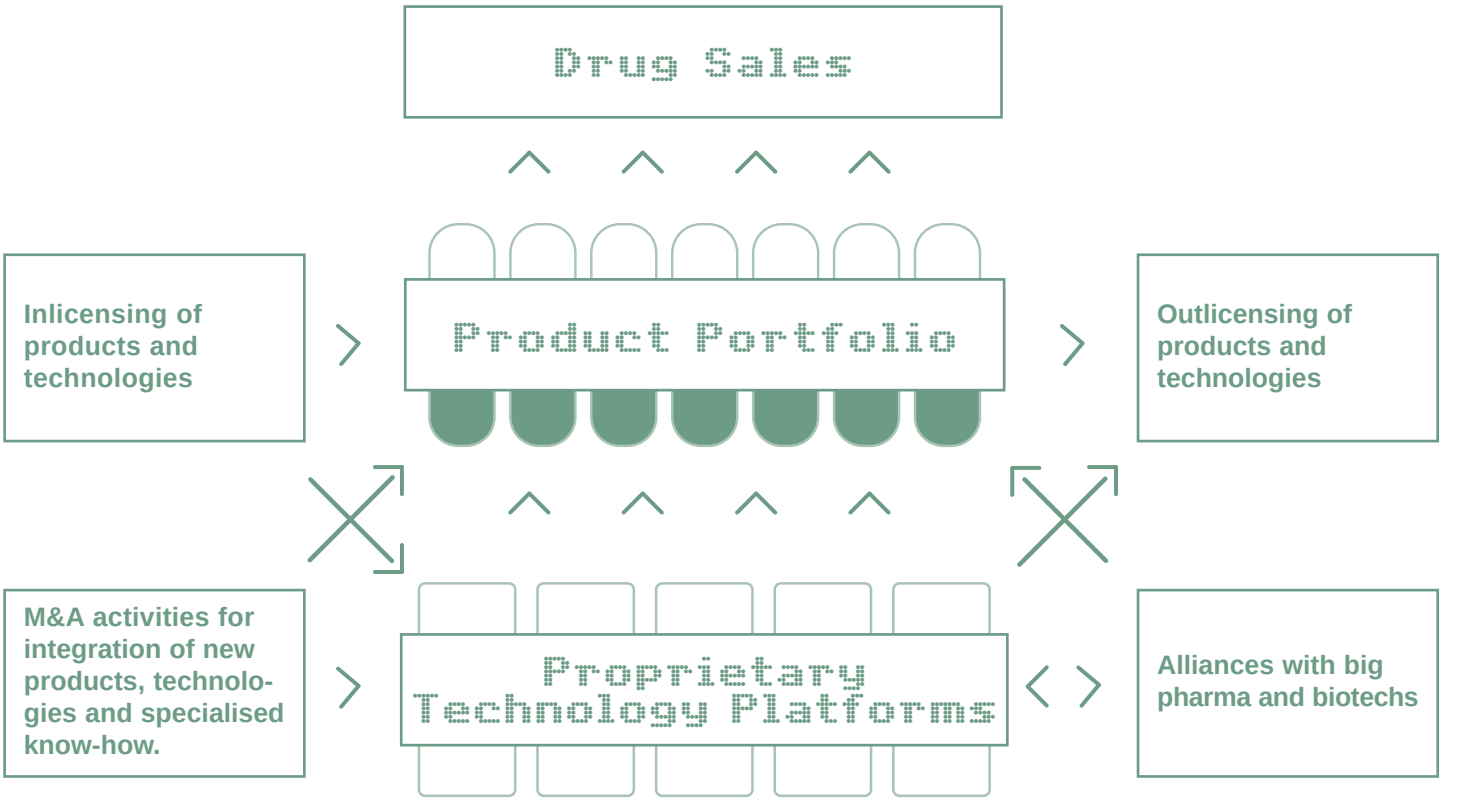
Product Pipeline

Product	Clinical Phases 1	2	3	Approval	Max. Sales Potential[1]
Leuprogel	● ● ●	● ● ●	● ● ●	●	> 50 million €
Polyphenon	● ● ●	● ● ●	● ●		> 50 million €
Etomoxir	● ● ●	● ●			> 500 million €
G207	● ● ●	●[3]			> 300 million €
CVLP-Vaccine	● ●[4]				> 250 million €
NV1020	● ●[4]				> 200 million €
rAAV-Vaccine	● ●[4]				> 200 million €
Chance to reach market [2]:	10–30%	40–60%	60–80%	90%	

[1] Per Year
[2] Source: Analyst's estimates
[3] Phase 1b/2
[4] Phase 1/2

MediGene's Business Model



... to Meet with Leading Technologies

Research

Which is the right approach to treating the disease?

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Development

Is the active agent suitable for the treatment of human patients?

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Market Introduction

Will the drug be approved and will it be marketable?

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Business Development – When does it make sense to involve third parties?

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Key Figures

MediGene Group, US-GAAP

		2000	2001	Change
Income statements				
Revenues	T€	0	**0**	–
Other operating income	T€	6,354	**7,493**	18%
Research and development expenses (R&D)	T€	– 13,774	**– 27,672**	101%
Business development and general administration expenses	T€	– 2,528	**– 5,736**	127%
Amortization of goodwill	T€	0	**– 1,845**	–
Depreciation	T€	– 394	**– 928**	135%
Operating loss before write-off IPR&D	T€	– 10,341	**– 28,689**	177%
Result before income tax	T€	– 9,264	**– 110,490**	1,093%
Write-off »IPR&D«	T€	0	**– 86,543**	–
Personnel expenses	T€	– 4,937	**– 9,035**	83%
Balance sheet data				
Balance sheet total	T€	127,790	**108,383**	– 15%
Shareholders' equity	T€	118,793	**100,406**	– 15%
Cash and securities	T€	115,226	**86,843**	– 25%
Long-term liabilities	T€	1,362	**2,402**	76%
Equity-to-asset ratio		93%	**93%**	0%
Cash flow				
Cash flow from operating activities	T€	– 6,559	**– 22,015**	236%
Cash flow from investing activities	T€	– 21,494	**9,031**	– 142%
Cash flow from financing activities	T€	110,807	**930**	– 99%
Cash and cash equivalents at end of period	T€	92,903	**80,843**	– 13%
Employees as at Dec., 31		90	**160**	78%
MediGene share				
Shares outstanding as at Dec. 31, 2001		10,106,722	**11,198,637**	11%
Weighted average number of shares		8,417,423	**11,003,245**	31%
Net loss per share	€	– 1.10	**– 10.04**	– 813%
Net loss per share adjusted for write-off IPR&D	€	– 1.10	**– 2.18**	– 98%
Dividend	€	0	**0**	–

Interview

2001 was a highly successful year for MediGene. Which events, in your opinion, were the most important?

DR. PETER HEINRICH: MediGene consistently and successfully pursued its strategic alignment as a fully integrated biopharmaceutical company in 2001:

- The acquisition of NeuroVir Therapeutics, Inc. enabled us to establish an even more widely-based product and technology portfolio, and we now maintain a strong presence in the U.S., the world's largest and most important pharmaceuticals market.

- The technology agreement with Evotec OAI allows us to conduct our research more efficiently to identify novel drug candidates to treat heart diseases. The basis for this is provided by the molecular targets we have defined in our own research.

- The first phase 3 trial of Polyphenon™E to treat genital warts produced excellent results.

- We acquired the European marketing rights for Leuprogel™, a drug for treating patients with advanced prostate cancer.

- Alongside research, we primarily extended clinical development, quality assurance and drug approval from the organizational and personnel perspectives. We are now establishing the marketing and sales department for our products Leuprogel™ and Polyphenon™E that are close to the market.

MediGene will in future be in a position to utilize the entire potential of the biopharmaceutical value chain – from molecular research into the causes of a disease to the marketing of proprietary drugs**.**

Our highly qualified and motivated staff in Europe and the U.S. play a crucial role in MediGene's success. In 2001 we were able to strategically boost personnel in all departments.

DR. JOHANNA HOLLDACK: We have made very good progress in all research and development projects. This clearly illustrates that MediGene has the right structures and suitable personnel competence in place to develop drugs and meet the high regulatory demands required in connection with its international approval. We now have an efficient research and development organization that pushes current projects and can integrate new projects fast.

Of what significance was the acquisition of the US-based NeuroVir Therapeutics, Inc. (NeuroVir) for MediGene?

DR. PETER HEINRICH: With the acquisition we added two novel cancer drugs that are already undergoing clinical trials to our product portfolio. These drugs are based on a new and highly promising technology using oncolytic herpes simplex viruses with the special characteristic of specifically destroying certain tumor cells.

In addition, with its amplicon technology, NeuroVir has contributed a technology platform that complements our portfolio in the promising field of analysis of genefunction and genetherapy.

The acquisition of NeuroVir Therapeutics, Inc. compliments our strategy of investing in core sectors, such as oncology, while opening up growth markets.

The acquisition also achieved our fundamental strategic objective of aligning MediGene internationally. NeuroVir, which as MediGene, Inc. is now a fully integrated member of the MediGene Group, gives us a foothold in the world's most important pharmaceutical market, Northern America.

Numerous cooperation agreements anchor MediGene, Inc. firmly in the world's largest scientific network. Its partners include world-famous facilities such as the Memorial Sloan- Kettering Cancer Research Center in New York, the Boston Children's Hospital and the Universities of Alabama and Chicago.

DR. JOHANNA HOLLDACK: The prospective drugs G207 and NV1020, used to treat brain tumors and liver metastases, extend our product portfolio in the area of promising cancer treatments substantially. Alongside traditional forms of treatment that are usually very aggressive, intensive research is underway around the world into highly specific and less strenuous forms of therapy. MediGene's novel approaches fulfill these criteria. They are specific in that only the tumor tissue is attacked. Both projects are undergoing clinical trials and very positive phase 1 results have already been achieved with G207 in the treatment of brain tumors

Since March 2001, MediGene has used the services of Evotec OAI in its quest for novel active ingredients to treat cardiac diseases. What do you hope to achieve by this collaboration?

DR. PETER HEINRICH: With the use of Evotec OAI technologies we expect to discover novel active compounds for cardiac drugs. This work is based on molecular targets in the field of cardiac diseases that have been defined by our research scientists.

With the signing of the technology agreement we extended our research program to include screening. The crucial factor for us is that we will hold all rights to the new agents that we then develop to registration phase either on our own or with partners.

MediGene acquired the exclusive European marketing rights for Leuprogel™, a drug to treat prostate cancer. What were the reasons for this?

DR. PETER HEINRICH: Our aim was to license a drug that has reached a highly advanced stage of development. Acquiring the exclusive European marketing rights for Leuprogel™ from the U.S. pharmaceuticals company Atrix Laboratories, Inc. (Atrix) is for us not just a decisive step towards marketing drugs of our own – it also strengthens our portfolio substantially in the field of oncology.

We are planning to launch Leuprogel™ next year.
We submitted our marketing authorization appli-cation for the One-Month product for Europe in December 2001. Already in January 2002 Atrix received FDA approval to market the One-Month depot product in the USA. For us, marketing Leuprogel™ opens up the prospect of establishing MediGene as a brand name in the pharmaceutical market, of helping to finance further research and development activities and to lay the foundations for later product launches.

DR. JOHANNA HOLLDACK: Alongside the strategic aspects influencing our decision, we were convinced by Leuprogel's™ innovative product properties and its clinical study results. Given the innovative way in which it is administered, the product is highly attractive in terms of efficacy, side-effects and patient-friendliness. In our view Leuprogel™ has the potential to become an important drug for use in modern prostate cancer therapy.

MediGene received positive phase 3 data for Polyphenon™E to treat genital warts. What is the significance of these results for MediGene?

DR. JOHANNA HOLLDACK: The excellent results of the first phase 3 trial are of crucial importance for the further development of the treatment of genital warts with Polyphenon™E. We were able to demonstrate that Polyphenon™E ointment is safe and highly efficacious. We are now planning to confirm these findings in a further phase 3 trial.

Alongside Leuprogel™ we now have a further potential product in the final stage of drug development. As we see it, the key to our company's lasting success lies in the development and launching of innovative drugs that are superior to established forms of treatment.

MediGene's clinical product pipeline currently comprises seven oncology and cardiology projects. How does a biopharmaceutical company like MediGene handle the risks that developing drugs entails?

DR. JOHANNA HOLLDACK: Minimizing possible risks in the development of individual drugs is of fundamental importance to MediGene. First, we carry out every development step to the highest standard. Second, we maintain close ties with regulatory bodies. Third, we subject all projects to an annual risk analysis. We achieve further risk diversification by developing drugs based on different technologies. What is more, active and dynamic portfolio management forms the basis of our current product portfolio. We always regard specific product decisions as portfolio decisions, too.

Our present product portfolio reflects precisely the implementation of these principles. We have both early-stage products and prospective products in advanced stages of clinical development.

The likelihood of successful approval increases as the product nears maturity and is particularly strong for products in the final stage of clinical development or already in the approval process. In Polyphenon™E and Leuprogel™ we already have two prospective products in these stages.

With Etomoxir, MediGene is currently developing a potential blockbuster. What does this mean?

DR. PETER HEINRICH: Etomoxir is surely a good example of an innovative drug's fine prospects. In treating congestive heart failure alone, analysts expect Etomoxir to boast a possible sales potential of at least 500 million € a year. Unlike the current therapeutic standard, Etomoxir's mode of action targets the cause of the disease.

What are MediGene's long-term plans?

DR. PETER HEINRICH: It is our declared goal to establish MediGene as a leading international biopharmaceutical corporation that undertakes highly innovative research and markets drugs of its own in the most important pharmaceutical markets.

With this aim in view we are active along the entire value chain – from research into the causes of disease to the sale of drugs of our own. MediGene's development so far testifies to a consistent implementation of this business strategy: We already possess one of the widest drug pipelines in the European biotech industry.

MediGene can only achieve long-term, sustainable growth if we are in a position to constantly launch innovative and competitive products and to share in the high profit margins of drug sales. Leuprogel™ will pave the way in 2003 as MediGene's first drug in Europe. Further development of the structures needed to market it – and to lay the groundwork for sales of subsequent drugs – will be one of our core issues in 2002.

As a precondition for a well-filled drug pipeline with high business potential we want to continue to expand our research and development activities. We see the expenditures required as investments in our company's future. It goes without saying that in all our investment decisions increasing the value of the company, and with it shareholder value, is our priority.

MANY THANKS!

Let us take the opportunity and thank all our shareholders for the confidence and trust you have put in MediGene and for the investments made. We also would like to express my special thanks to all employees and business partners who significantly contributed to our success.

BOARD

EXECUTIVE BOARD

DR. PETER HEINRICH

Chief Executive Officer, Co-Founder

Dr. Peter Heinrich is a co-founder of the company and has been chairman of the Executive Board of MediGene AG since 1995. He was previously in charge of developing the biotechnology division at Wacker Chemie. In his seven years with Wacker he held various positions in research and management, including responsibility for cooperation with Japanese and U.S. biotech corporations. After studying biology and chemistry at the University of Munich and receiving a PhD in biochemistry he worked as a scientist at Harvard University.

Dr. Heinrich is a co-founder and vice-chairman of the Association of German Biotechnology Corporations (VBU), a board member of the Society for Chemical Engineering and Biotechnology e. V. (DECHEMA), a member of the board of governors of Bayern Innovativ GmbH and a mentor of the Bayerische Eliteakademie. In November 2000 he was elected to the executive board of Emerging Biopharmaceutical Enterprises (EBE), a specialized group within the European Federation of Pharmaceutical Industries and Associations (EFPIA), Brussels. Dr. Heinrich is a member of the supervisory board of Wilex Biotechnology AG, Munich.

DR. JOHANNA HOLLDACK

Chief Operating Officer

Dr. Johanna Holldack, Chief Operating Officer since 2000, has headed the R&D department at MediGene since 1999. Dr. Holldack joined MediGene from Chiron Corp., Emeryville, CA, where she was Division Vice President Project Management and Clinical Research, Vaccines and Therapeutics. Prior to her time at Chiron Dr. Holldack was Head of Clinical Projects and later Head of Clinical Research, Regulatory Affairs and Project Management at Behringwerke AG in Marburg, Germany. Dr. Holldack holds an M.D. in pediatrics from the University of Göttingen and received her certification as pediatrician.

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President, German Research Organization

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Deputy Chairman

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GPC Biotech AG, Germany
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und Entwicklungs AG, Austria
Morphochem AG, Germany
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Intercell Biomedical Forschungs-
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PROF. DR. MICHAEL HALLEK

Co-Founder

Professor at the Grosshadern Hospital
of the University of Munich, Germany

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(from May 23, 2001)
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MICHAEL TARNOW

(from May 23, 2001)
President and CEO of Huntington Venture, LLC, Boston, USA

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Caprion Pharmaceuticals, Inc., Canada
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Xenon Genetics, Inc., Canada

PROF. DR. NORBERT RIEDEL

(until May 23, 2001, from May 23, 2001 Substitution member)
President of the Recombinant Strategic Business Unit of Baxter Healthcare Corporation Hyland Immuno, USA

DR. ANSBERT GEADICKE

(until May 23, 2001)
Managing Partner, MPM, USA

SCIENTIFIC ADVISORY COUNCIL

MediGene's R & D activities are supported by an advisory council of experienced and highly qualified experts who meet at least once a year. Its main task is to make suggestions and recommendations on strategically relevant scientific developments and to express opinions on scientific issues.

PROF. DR. BRIAN SEED, CHAIRMAN

Professor of Molecular Genetics at the Harvard Medical School and member of the Department of Molecular Biology at the Massachusetts General Hospital in Boston, Mass., USA

Professor Seed studied physics and biology at the California Institute of Technology in Pasadena and is considered to be a leading immunologist and molecular biologist. He has developed new techniques in molecular biology with a view to identifying transmission routes for biological signals within the immune system. He is a co-founder of three U.S. biotech corporations and a member of the scientific advisory council of seven firms in the United States and Europe, including Aventis.

PROF. DR. LUTZ GISSMANN

Head of the Department of Genome Modification and Cancer Origination at the German Cancer Research Center

Professor Gissmann headed research and development at MediGene AG from 1997 to 1999. From 1993 to 1996 he was head of viral oncology at the department of gynecology and obstetrics at Chicago's Loyola University. He is considered to be one of the leading experts in HPV research. CVLP technology is based on his group's findings. Prof. Gissmann has received several awards for his work.

PROF. DR. ROBERT KOTIN

Head of Molecular Hematology at the National Heart, Lung and Blood Institute of the National Institute of Health (NIH) in Washington, D.C.

Professor Kotin's work on Adeno-Associated Viruses (AAV) form the basis for the use of AAV in genetherapy. He is considered to be a leading expert in the field of AAV virology and genetherapy.

PROF. DR. CORNELIS J. M. MELIEF

Professor of Internal Medicine and Head of the Department of Immunohematology and Blood Banks at Leiden University Hospital in the Netherlands

Professor Melief's research is focused on tumor immunology and immunotherapy. He is a member of several advisory bodies to Dutch and European scientific organizations, management board chairman of the Amsterdam-Leiden Institute for Immunology and a member of the scientific advisory board to Dutch universities.

PROF. DR. BERNARD ROIZMAN

Professor at the Institute of Molecular Genetics and Cell Biology and the Institute of Biochemistry and Molecular Biology of the University of Chicago

Professor Roizman is considered to be a leading international expert on Herpes Simplex viruses, a subject on which he has worked for more than 40 years. He has won many awards for his work and is a member of the National Academy of Sciences, USA and the American Academy of Arts and Sciences.

PROF. DR. RICHARD WHITLEY

Professor of Pediatrics, Microbiology and Medicine at the University of Alabama in Birmingham, and holds the Loeb Eminent Scholar Chair in Pediatrics

Professor Whitley's work has made a fundamental contribution towards understanding and treatment of Herpes Simplex viral infections. He is also an advisor to the Infectious Diseases Society of America and a member of advisory bodies at the National Institute of Health and the U.S. Food and Drug Administration. He has won several awards for his work.

PROF. DR. ROBERT MARTUZA

Professor of Neurosurgery at the Harvard Medical School and Head of the Neurosurgery Department of the Massachusetts General Hospitals in Boston

Professor Martuza's scientific interest is focused on the treatment of various forms of brain tumors. He plays a leading role in the clinical development of oncolytic Herpes Simplex technology and is the author of numerous scientific publications.

»The employees are MediGene's most important capital.«

Their knowledge and high intrinsic motivation contribute to helping seriously ill people. In order to maintain and expand on this high level of know-how, we encourage the constant exchange of scientific knowledge as well as participation in congresses and conferences on leading subjects. Medigene's development program for training competences beyond an employee's area of specialization is even sponsored by the BMBF.

Dr. Petra Bles, Director,
Head of Human Resources

Human Resources

KNOWLEDGE AND CREATIVITY – THE RAW MATERIAL OF OUR INNOVATION

Human resources are among the key factors contributing to an innovative enterprise's success. This especially applies at MediGene, where complex projects require interdisciplinary know-how at the highest level. What we need is receptive, creative pioneers who are prepared to devote themselves to a highly promising idea and work with total commitment towards realizing the vision of an even better world of medicine.

We attach special importance to actively approaching highly qualified individuals. At graduates' fairs and job fairs in Germany and the U.S. we speak with gifted and talented scientists and recruit them to work at our locations in Martinsried, Germany, and San Diego, CA.

SUCCESS WITH SUPERB STAFF

MediGene's success would be inconceivable without our extremely motivated and highly qualified staff. Over 50% are graduates, most of them with PhDs. Many ventured to move to us from established pharmaceutical and biopharmaceutical corporations, bringing with them profound industry experience and often excellent contacts. Career starters, mostly with degrees in subjects such as biology, biochemistry or medicine, bring with them a fresh outlook and ideas.

AN ATTRACTIVE WORKING ENVIRONMENT...

Our staff appreciate above all the challenge of project work in a highly communicative working environment with short lines of decision. MediGene's international orientation which is reflected not only in the way we work but in our payroll too, is a further criterion that makes working for us interesting for many of our staff.

MediGene is seen mainly by university graduates as a highly attractive employer, and we receive a correspondingly large number of applications. To choose the best applications we use an instrument that was developed especially for MediGene on the basis of the given job profiles. It takes into account both specialist knowledge and relevant key competences such as a methodical approach to work and communication as well as team skills.

...WITH EXCELLENT BENEFITS

We need the best minds to fuel our growth, and we aim to keep our superbly trained staff. In addition to a fair market salary we offer them convertible bonds as a stake in the company. In 2002 MediGene also plans to launch a company pension scheme with employer's contributions.

TO WORK AT MEDIGENE IS TO DEVELOP YOURSELF

We offer committed staff very good prospects both in R&D and in administration. Wherever possible we make management appointments in-house. In the process, MediGene helps people who were originally »pure« scientists to grow into their new roles as executives or project managers. To assist them, MediGene last year set up its personnel development division.

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Research

Target Identification **Target Validation** **Screening** **Develop-ment** **Market Introduction**

Business Development

Numerous fundamental scientific discoveries such as genome research have revolutionized medical research in recent years and done so with an especially positive effect on the drug development process. A highly systematic approach to scientific techniques and methods characterizes modern pharmacological research. This targeted quest for novel active compounds is known as »rational drug development.« It is based on molecular targets, usually proteins, that have been proven to be involved in the onset of a disease.

»Biology helps us to understand diseases.«

Biotechnology allows us to turn knowledge into medical innovation. Sound innovation management coupled with making the right decisions is the key to patients´ health and to successful drugs.

In my 10 years in the biotech industry, I have learned that the establishment of a sustainable, high-profile company requires these aspects to be in balance. I believe we have found this balance at MediGene.

Dr. Thomas Henkel, Vice President, Head of Research

»TARGET IDENTIFICATION«

Drug development begins with detailed research into a disease's origins using the latest methods of molecular biology. The aim of this research is to identify factors, known as targets, that are of importance in the pathogenesis. These factors can be genes or proteins that serve as targets for identifying active compounds.

»TARGET VALIDATION«

Of the targets identified, only those are selected that are highly relevant to the disease and suitable for use as an approach to developing a new therapy. These are the so called validated target molecules, or validated targets. The validation process is performed in suitable cell, organ and animal models. A therapeutic concept is drawn up on the basis of these targets and lays the framework for the directed search for novel active ingredients.

»SCREENING«

Once a target has been validated a biological test is devised to identify chemical or biological substances that can influence the course of the disease positively: drug candidates. Over 100,000 chemical compounds are screened for their efficacy, using the latest high-throughput assays.

The 20 best molecules from this analysis undergo further experiments on organ, animal and cardiac models to investigate their effects and side-effects. The most promising candidates are selected and optimized in respect of their chemical structure. As a rule, fewer than five active ingredient candidates reach the preclinical development stage.

MEDIGENE'S POWERFUL TECHNOLOGY FOR RESEARCH FROM GENE TO DRUG – INTEGRATED TARGET DEFINITION (ITD)

MediGene uses its Integrated Target Definition (ITD) platform to identify validated targets and active ingredients. It forms the basis of MediGene's research activity into cardiac diseases and is aimed at developing innovative treatment concepts for cardiac diseases on the basis of the systematic discovery of targets and novel active ingredients.

Validation is the ITD program's outstanding achievement. The targets identified are subjected to the strictest of selection procedures. ITD combines all steps in drug development from target identification to the search for active ingredients.

Extensive cooperations with technology leaders such as Affymetrix, Evotec OAI or Compugen optimizes the ITD technology's efficiency.

Genetic Databases Lay the Groundwork

In close collaboration with internationally renowned scientists and research institutes, MediGene has compiled one of the world's largest collections of genetic data for healthy and diseased cardiac tissue. They form the basis of ITD platform work. Genes, that behave differently in healthy and diseased tissue and are related to the onset of the disease, are here analyzed and investigated for their suitability as an approach to a causal therapy.

Successful Discovery
Using ITD technology MediGene scientists have already identified over 250 high-quality targets in the genetic library. The criteria that MediGene scientists apply to a target are strict. The only targets that survive the validation process are those that in various disease-specific models have proven their importance for the origins of the disease.

In-Vitro Heart Substitutes of Animal Testing
Alongside disease-specific cell and animal models, a unique patented organ model is a key component in the validation process. The so-called in-vitro heart is identical to the human heart in its functional properties. In MediGene's cardiac research it takes the place of a large number of animal experiments and speeds up enormously the quest for targets and active ingredients. Five targets have so far successfully undergone the validation process and then been fully protected by patents.

Partnership with Evotec OAI in Discovery of Active Ingredients
Validated targets serve as a basis for the discovery of active ingredients. To ensure that the search for active ingredients runs as efficiently as possible MediGene has concluded a technology agreement with biotech company Evotec OAI.

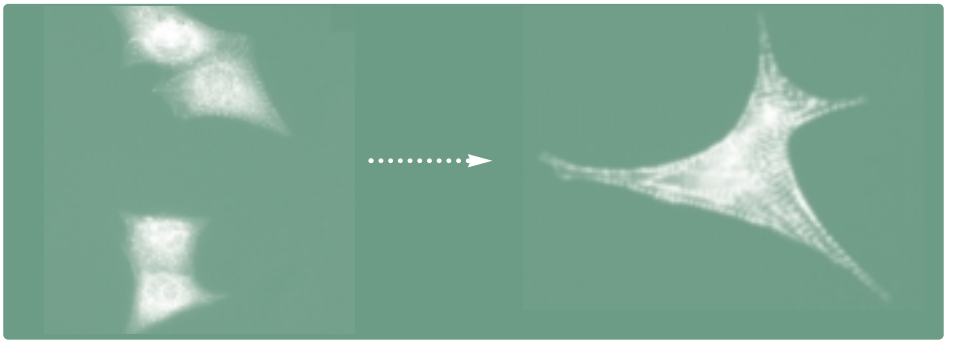
The objective of this collaboration is a systematic search for new active ingredients to treat cardiac diseases. MediGene retains the rights to any molecules identified (so-called »hits«).

These hits then undergo a further selection procedure to ensure that only the most promising candidates are developed further.

Proven Power to Deliver – Blockbuster Candidate Etomoxir
MediGene's ITD platform's power to deliver is demonstrated by a new scientific concept to treat life-threatening congestive heart failure. It is based on a targeted reduction of fatty acid combustion in the diseased heart and forms the basis for the development of our product candidate Etomoxir, a drug that is already undergoing phase 2 clinical trials.

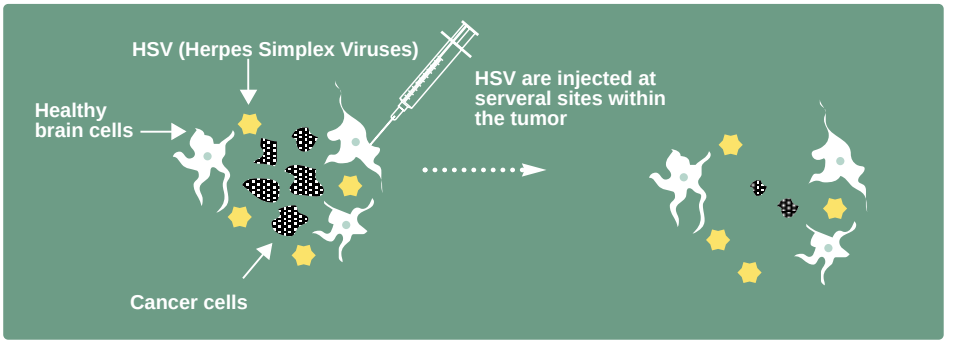
The ITD program can make a major contribution towards the company's value by means of the especially high quality of targets and active ingredients identified. New targets and active ingredients are planned not only to fill MediGene's own pipeline but for further development with potential partners.

ITD



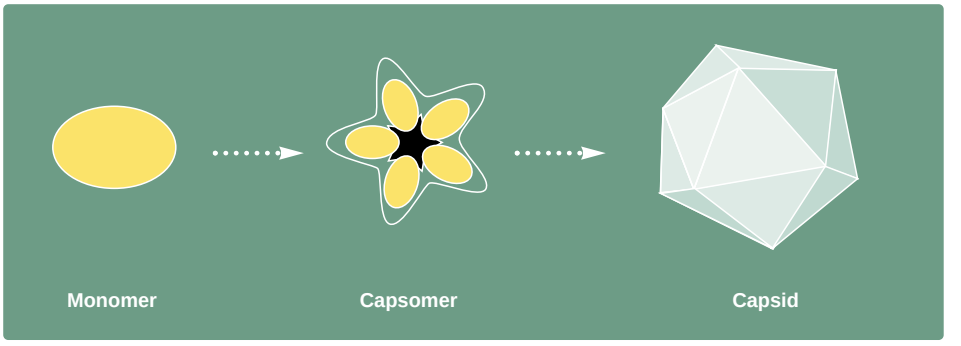
The ITD-technology is employed to discover genes and proteins (targets), which transform a healthy heart muscle cell into a pathologically altered heart muscle cell. The identified targets serve as starting points for the development of novel therapeutic concepts and innovative drugs.

HSV



Oncolytic Herpes Simplex Viruses (HSV) are injected at several sites into the tumor to specifically destroy the cancer cells without damaging halthy tissue.

CVLP



Chimeric virus-like particles are made up of protein molecules (monomers) of the Human Papilloma Virus. Via intermediately formed capsomers the monomers assemble to virus-like structures, so called capsids. MediGene already established a production process to manufacture CVLPs for the ongoing clinical Phase 1/2 study.

MEDIGENES TECHNOLOGY PLATFORMS

ITD – INTEGRATED TARGET DEFINITION

MediGene's ITD program is based on one of the largest libraries of genetic samples taken from healthy and diseased cardiac tissue. Genes and proteins that act differently in a healthy and a diseased heart are first identified and then analyzed for their importance as a cause of illness.

They serve as a starting point for a targeted search of compounds with novel modes of action. The most promising active ingredients discovered are selected and developed into product candidates.

HSV – ONCOLYTIC HERPES SIMPLEX VIRUSES

The oncolytic herpes simplex virus (HSV) technology is based on the ability of modified HSVs to penetrate different kinds of tumor cells and break them up (oncolysis). Cancer cells differ from normal cells in their uncontrolled growth. Oncolytic viruses make use of this difference. The viral genome has been modified in such a way that the viruses can only replicate in tumor tissue and thus specifically destroy it. Healthy tissue is not damaged.

Therefore the technology offers a superior side-effect profile compared to other treatments because conventional methods such as surgery, chemo- and radiotherapy attack both diseased and healthy tissue. Should modified HSVs nonetheless trigger unwanted side-effects, these can be neutralized using commonly available medication.

The technology is currently being used in clinical trials to treat two forms of cancer. Its use with other types of tumor, including those that are resistant to both chemotherapy and radiotherapy, is an additional option.

Recent experimental findings indicate that modified herpes simplex viruses function synergistically in combination with chemotherapy. Their application potential is thereby substantially enlarged. MediGene holds extensive patent rights to oncolytic herpes simplex viruses and their combination with chemotherapy. Patent rights also allow for the development of HSV to treat other cancers.

CVLP – CHIMERIC VIRUS-LIKE PARTICLES

Chimeric Virus-Like Particles (CVLPs) are empty, virus-like shells. They consist of human papilloma virus (HPV) protein components manufactured using genetic engineering techniques.

In contrast to the natural virus, CVLPs lack the genetic material of HPVs, so they have no infectious potential. Their effect is based on a pseudo-infection that does not trigger an infectious illness. Healthy tissue is not damaged.

Preclinical experiments have shown that CVLPs can trigger a full-scale immune reaction that has both a prophylactic and a therapeutic effect. That is why CVLPs can also be used to treat people already infected – by so-called therapeutic vaccination.

By varying the protein components, the use of CVLP technology to treat other tumors resulting from infection by other HPV stems is conceivable.

rAAV – RECOMBINANT ADENO-ASSOCIATED VIRUSES

MediGene is developing the recombinant Adeno-Associated Virus (rAAV) technology to deliver therapeutic genes. rAAVs are genetically engineered and are considered harmless.

At present, rAAV technology is used by MediGene to produce tumor vaccines for the purpose of stimulating the patient's immune system to specifically fight tumor cells.

The manufacture of a therapeutic vaccine proceeds in several steps. Tumor cells are taken from the patient and cultivated in the laboratory. rAAVs are used to insert the genetic information of immunostimulating proteins into these cells. Finally, the modified cells undergo a process that eliminates uncontrolled growth of the tumor cells. The cells are then returned to the patient in the form of a vaccine. In his body the tumor vaccine is then intended to stimulate immune system activity and to eliminate the tumor cells. Compared with conventional therapeutic methods, rAAV tumor vaccines may also serve to fight secondary tumors (metastases) effectively.

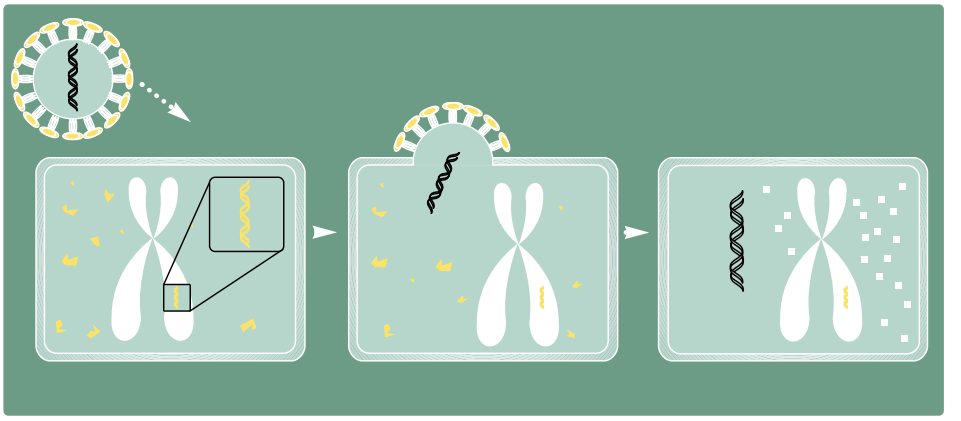
In addition to the manufacture of tumor vaccines, rAAV technology can be extended to deliver a wide range of therapeutic genes, meaning it can be applied in the treatment of different diseases.

AMPLICON – GENEVECTORS

The amplicon technology uses herpes simplex virus (HSV) shells as »vectors« to deliver DNA, which stores genetic information in the form of genes. The combination of the virus shell and the DNA is refered to as an amplicon. In relation to comparable technologies, amplicons have the potential to transport large quantities of genetic information.

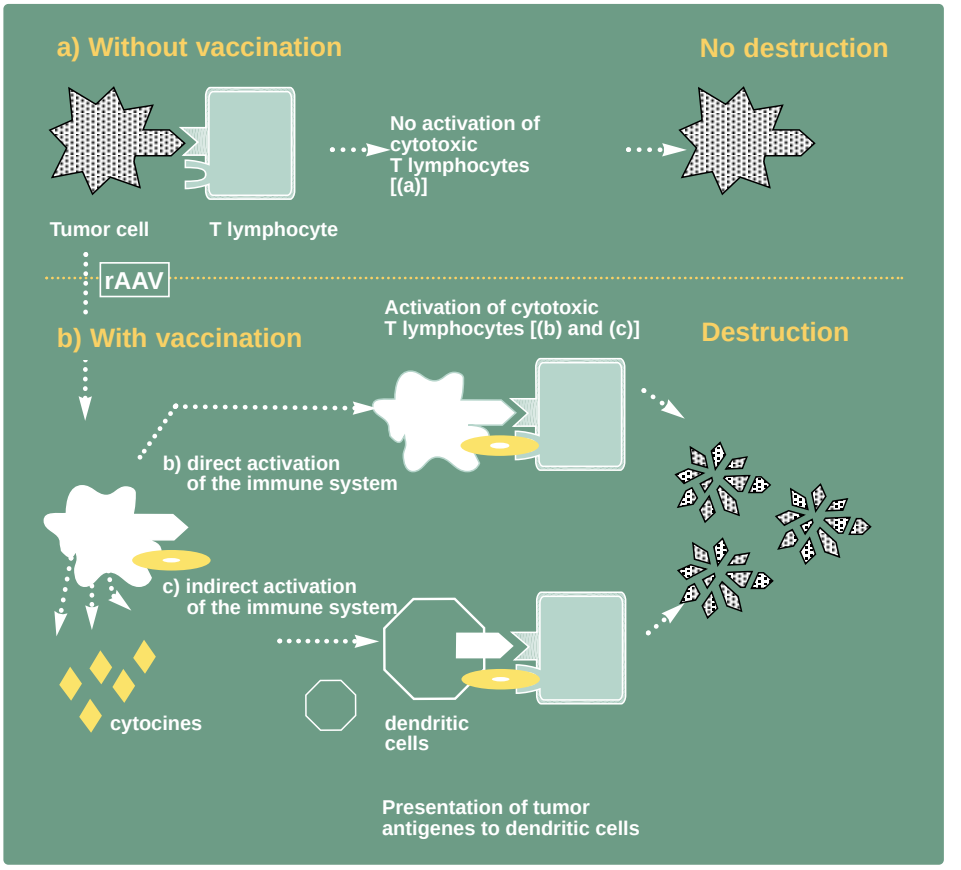
In amplicon genetic vectors MediGene has at its disposal a powerful technology platform that can be used for research purposes and may also be suitable for use in the promising field of genetherapy. We have taken out wide-ranging patent rights to the amplicon technology that entitle MediGene both to therapeutic and prophylactic applications and to its use for research purposes.

rAAV and Amplicon



Genetherapy offers an option for the treatment of genetically caused diseases. The underlying genetic defect is compensated for by introducing the respective genetic information (DNA) into the patients cells. So-called gene vectors serve as therapeutic tools used to deliver the DNA. With rAAV and HSV-technology MediGene is developing two platforms in this promising area of medicine.

rAAV



Examples for the application of rAAV technology:
Certain types of tumor cells, like malignant melanoma cells, are only poorly recognized by the immune system (a). Tumor vaccines are intended to activate the immune system to eliminate primary tumor cells as well as metastatic cells. Tumor cells are taken from the patient and are modified by rAAV technology in two ways. The genetic information for an immune activating molecule (b) is introduced into the tumor cells as well as the one for a cytocine (c), which triggers the immune response through a certain type of immune cells, so called dendritic cells.

»At MediGene, Inc. we pursue new methods in cancer therapy.«

To realize our vision of targeted and lasting cancer therapy we at MediGene, Inc. have left the beaten track of standard treatments. Two biopharmaceutical products of a totally new kind, the oncolytic Herpes Simplex viruses G207 and NV1020, are already undergoing clinical trials. Our foremost goal is to take their development forward so that we can offer more effective treatment options for aggressive cancer diseases.

Dr. Frank Tufaro, Executive Vice President and Managing Director MediGene, Inc.

Development

Research → Pre-clinic → Clinical Phase I → Clinical Phase II → Clinical Phase III → Market Introduction

Business Development

Drugs take on average 10 to 15 years to be developed.
Most of this time is spent determining their effects and side-effects.

PRECLINICAL TRIALS (PRECLINIC)

Once promising new drug candidates have been identified in research, they need to be further evaluated to see whether they are suitable for use on humans. Proof of this is furnished in so-called preclinical trials. Biochemical and pharmacological analyses of their effects are a regulatory requirement, as are investigations into potential side-effects (toxicology) and into their uptake, excretion and distribution behavior (pharmacokinetics).

CLINICAL TRIALS

Ideally, at least one new active agent will pass the preclinical stage and fulfill the strict regulatory criteria for commencing clinical trials on humans. These trials are divided into three stages, or phases. In phase 1 the drug candidates compatibility is tested on a small number of healthy volunteers. In phase 2 the optimal dosage is determined and the first doses are administered to patients. In phase 3 the drug's efficacy in comparison with standard therapy is demonstrated on a larger number of patients.

MEDIGENE'S AREAS OF INDICATION

Cardiac and tumor diseases today number among the most frequent causes of death in industrialized countries. There is an urgent need for innovative approaches to therapy, given that many of these diseases cannot be treated adequately.

MediGene's own development programs are clearly targeted at cardiac and tumor diseases with a focus on both mass indications such as congestive heart failure and prostate cancer and niche indications such as malignant brain and cervical tumors.

CARDIAC DISEASES

Congestive Heart Failure – A Strong Demand for Medical Innovation

Chronical weakness of the heart, also known as congestive heart failure, is one of the most frequent heart diseases with fatal consequences. Around the world an estimated 15 million people* suffer from this life-threatening chronic condition. In the U.S. alone, 4.6 million people* are affected by congestive heart failure. About one in four requires inpatient treatment.

In chronic congestive heart failure cases the patient's heart is so weakened that as a result the body is no longer supplied adequately with blood. Patients complain of being short of breath and limited in their physical capabilities. Experts estimate that the number of cases in industrialized countries will continue to increase. This trend is attributed to two factors: higher life expectancy and the growing number of heart attacks treated successfully. Congestive heart failure is often the result of a heart attack. Despite the disease's widespread and serious nature, to this day no treatments exist that permanently eliminate the causes of congestive heart failure.

TUMOR DISEASES

Prostate Cancer – The Most Frequent Male Cancer Disease

In 2000, the World Health Organization (WHO) identified 190,000 cases of prostate cancer in Europe. The American Cancer Society estimates that one out of 30 patients dies of the disease's consequences. Alongside customary treatments such as operative removal of the tumor and radiotherapy, standard therapies today include agents derived from endogenous hormones.

In practice these hormone-like agents, so-called hormone analogs, have proven extremely successful. They suppress not only the growth of the original tumor but also that of tumor cells that separate from the tumor and form metastases all over the body.

In prostate cancer the growth of tumor cells is often stimulated by the male sex hormone testosterone. The growth-promoting effect depends on the level of testosterone in the blood. In treatment, drugs that reduce the testosterone level are a good means of slowing down the pace of tumor growth sufficiently to enable the progress of the disease to be controlled. The patient is given in depot form an LHRH analog comparable to the natural luteinizing hormone-releasing hormone (LHRH). Although depot formulations may simplify treatment by means of their long-term effect, taking them is often unpleasant and accompanied by side-effects such as hot flushes or a flare-up of the tumor disease.

* Source: National Institutes of Health, USA (2001)

Genital Warts – Frequent Tumor Disease of the Genital Tract
Genital warts are disfiguring and often painful tumors of the genital tract caused by infection with certain types of human papilloma virus.

Genital HPV is probably the most common sexually transmitted disease in the USA. Approximately 20 million people are infected, with 5.5 million new infections occuring each year[1].

Treatments available today involve operative or chemical procedures often accompanied by pain, destruction of tissue, creation of scars and inflammation of the skin. A major disadvantage of conventional therapies is the high probability of a recurrence of genital tumors after treatment.

Brain Tumors (Anaplastic Astrocytomas and Glioblastomas)
In Europe and the U.S., 30,000 malignant[2] brain tumor cases a year are diagnosed. Surgery and radiation treatment can only be applied to a limited extent. The WHO distinguishes between four categories of brain tumor of which Grades III (anaplastic astrocytoma) and IV (glioblastoma) are the most aggressive and grow extremely fast. The prognosis for malignant astrocytoma or glioblastoma patients is poor. Even after treatment they are unlikely to survive for more than a few months.

Liver Metastases
Liver metastases due to cancer of the colon are the most frequent form of malignant liver tumor. In Europe and the U.S., 140,000 cases[3] a year occur. Liver metastases is the name given to secondary tumors caused by the spread of cancer cells from the primary tumors, such as cancer of the colon. The possibilities of treating liver metastases depend on the existence and extent of the secondary tumors. In cases where metastases can not be removed completely by surgery, the prognosis for these patients is very poor.

Malignant Skin Cancer (Malignant Melanoma)
In the main industrialized countries 75,000 new cases[4] of skin cancer per year are diagnosed. The incidence of skin cancer cases is expected to double within 10 years. Malignant black skin cancer is characterized in its advanced stages by the creation of malignant secondary tumors (metastases) that spread throughout the body in uncontrolled manner. Today no therapy is known to exist for which satisfactory results in treating metastatic malignant melanoma are reported.

Cervical Cancer
Cervical cancer ranks second only to breast cancer as the most frequent form of cancer in women. This type of cancer and its precursors are most commonly associated with the high-risk strains of human papilloma virus (HPV). Despite the existence of extensive medical checkup programs over 450,000 cases[4] of cervical cancer a year are recorded around the world and 350,000 women a year die of it. Between 1% and 4% of the female population show signs of advanced changes (dysplasia) of the cervix, a precursory stage of the cancer.

[1] Source: Centers of Disease Control and Prevention, USA (2001)
[2] Source: Decision Resources (2000)
[3] Source: National Cancer Research Institue (2000)
[4] Source: The International Agency for Research and Cancer World Health Organisation (2001)

PRODUCT CANDIDATES

ETOMOXIR – A NEW THERAPEUTIC PRINCIPLE TO TREAT CHRONIC CONGESTIVE HEART FAILURE

In Etomoxir, MediGene is developing a drug to treat congestive heart failure with an entirely new mode of action, the scientific basis of which is derived from MediGene's own research (ITD).

The heart needs a lot of energy to do its work. It generates it by burning sugar (glucose) and fats (fatty acids). These combustion processes – often referred to as oxidations – require oxygen. To generate the same amount of energy more oxygen is used in burning fat than in burning glucose. That is why the same amount of oxygen generates less energy in burning fat than in burning glucose. In a healthy heart the utilization of these two sources of energy are well balanced.

MediGene's ITD research program supplied additional findings and confirmed the hypothesis that in a pathologically changed heart this ratio is shifted toward burning fatty acids. In comparison with a healthy heart the energy balance is therefore markedly worse and performance is reduced drastically.

Etomoxir blocks the enzymatic activity of a key protein in the combustion of fatty acid – Canitin Palmitoyl Transferase-1 (CPT-1). In heart muscle cells CPT-1 tickets fatty acids to direct them to the combustion process. Etomoxir specifically inhibits this step by perfectly coupling CPT-1 – like a key inserted into a lock. Once inside the lock however, the key »Etomoxir« is designed to break and in doing so, block the enzyme. As a result, the heart is forced to generate the energy it requires by switching to glucose combustion, which is more efficient than fatty acid combustion in terms of oyxgen usage.

Etomoxir Sets to Work very Specifically and Very Early

This finding prompted MediGene research scientists to develop a new therapy concept based on a targeted reduction in fatty acid metabolism. In Etomoxir an active ingredient was identified that specifically inhibits an early step in fatty acid oxidation. Etomoxir targets the enzyme Carnitin-Palmitoyl-Transferase-1 (CPT-1), redirecting energy generation toward glucose oxidation. That is why Etomoxir should improve cardiac performance markedly. In appropriate experiments on heart and animal models this hypothesis has already been confirmed.

Phase 2 of Clinical Trials is in Full Progress
Etomoxir is currently undergoing phase 2 trials at numerous clinical centers in Europe to treat chronic congestive heart failure. The active ingredient is taken orally once a day in the form of a gel capsule. One objective of the trials is to establish the optimal effective dose. Preliminary results are expected by the end of 2002.

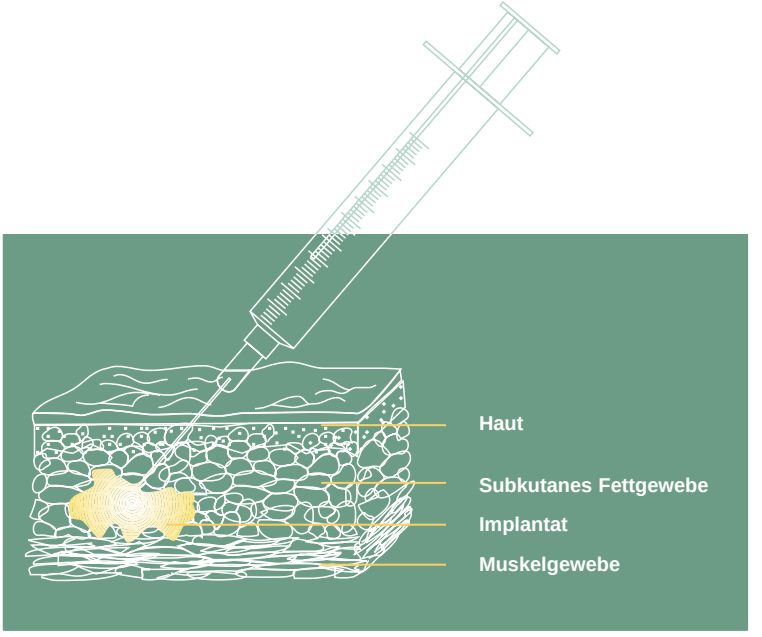
In 2000 the results of a small-scale study were published. They indicated that Etomoxir is effective in treating chronic congestive heart failure.

Extended Rights for Additional Indication Areas
At the beginning of 2001 MediGene acquired further rights to Etomoxir. They relate to the use of the active ingredient to treat cardiovascular diseases such as arteriosclerosis, angina pectoris, high blood pressure and heart attacks. MediGene has also secured the rights to a number of compounds similar to Etomoxir, for use in indication areas other than those of cardiovascular diseases.

LEUPROGEL™ – INNOVATION IN THE TREATMENT OF PROSTATE CANCER

Leuprogel™, a combination of standard LHRH therapy and the new Atrigel® depot technology, is characterized by a very good therapeutic profile – in addition to a high degree of efficacy.

Clinical trials have shown that in 94% of patients the testosterone level was reduced permanently from the first injection on.



Leuprogel™ is a combination of LHRH standard therapy and the novel Atrigel® depot formulation. The liquid Leuprogel™ is injected subcutaneously, forming a solid depot under the skin. The drug, which lowers testosterone levels, is an LHRH-analog and is continuously released from the depot by slow degradation of the Atrigel®-matrix in the patient's body. The therapeutic effect extends over time periods of one to four months depending on the depot used.

A further point in favor of Leuprogel™ preparations is their ease of use. Only very small quantities are applied and due to the use of a small needle the injection is less unpleasant.

MediGene Has Submitted European Marketing Authorization Application
At the beginning of April 2001, MediGene acquired from Atrix Laboratories, Inc. the European marketing and sales rights for three dosages of the depot formulation Leuprogel™. Clinical development of the One- and Three-Month depot has already been concluded. In January 2002 the U.S. Food and Drug Administration (FDA) granted Atrix approval for the One-Month depot in the United States.

MediGene submitted its marketing authorization application for this preparation in Europe in December 2001. Market launch of Leuprogel™ preparations by MediGene is scheduled for next year.

European sales of LHRH analogs totaled 500 € million in 2000.

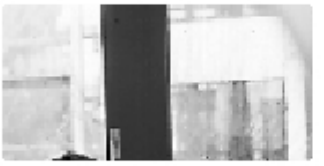
POLYPHENON™E OINTMENT – OUTSTANDING TRIAL FINDINGS IN TREATMENT OF GENITAL WARTS

Results of the first phase 3 trials of Polyphenon™E to treat benign genital tumors (genital warts) were excellent. MediGene's development team tested two different formulations of which the ointment was found to be clearly superior.

Clearance Rate of 59%
Polyphenon™E ointment is safe and highly effective. Genital warts disappear entirely and the ointment is well tolerated. An especially remarkable finding is the ointment formulation's markedly high cure rate of 59% of treated patients. The reliability of the trial findings is over 99%, as shown by the statistical p-value of 0.0066.

Low Recurrence Rate
A decisive criterion for the lasting nature of successful treatments is the recurrence rate. Here too, Polyphenon™E ointment has proven highly effective: In a follow-up that took place 12 weeks after the last treatment, only 12.5% of successfully treated patients reported a recurrence of genital warts. Polyphenon™E ointment promises to be very effective in long-term trials too.

Second Phase 3 Trial in Preparation
In the second quarter 2002 MediGene intends to start a second independent phase 3 trial as required by the FDA for the approval of Polyphenon™E ointment.





G207 AND NV1020 – ONCOLYTIC HERPES SIMPLEX VIRUSES – A NEW TECHNOLOGY IN CANCER THERAPY

Traditional methods of cancer treatment such as surgery, chemotherapy and radiotherapy attack not just diseased but also healthy tissue. That is why modern cancer therapy calls for technologies that are equally effective and specific but have fewer side-effects.

MediGene, Inc. has developed a new therapeutic concept that takes these requirements into account. It is currently in use with aggressive cancers that are beyond treatment using conventional methods. As therapeutic tools MediGene, Inc. uses modified oncolytic herpes simplex viruses that are highly specific in their effect and only attack and destroy tumor tissue.

G207 to Treat Malignant Brain Tumors and NV1020 to Treat Liver Metastases
Two product candidates have already made it from the research laboratory to clinical trials. They are G207 for the treatment of malignant brain tumors and NV1020 for the treatment of liver metastases originating from malignant tumors of the colon.

G207 – Promising Phase 1 Study Results
G207 has successfully undergone a phase 1 clinical trial and the positive final report was submitted to the FDA. In view of the highly promising findings we started a phase 1b/2 trial in the U.S. in the last quarter of 2001.

NV1020 in Phase 1 Study Trial
NV1020 is currently undergoing a phase 1 clinical trial of how well it is tolerated. First patients have already been treated with NV1020. The trial is being conducted at the renowned Sloan-Kettering Research Center in the U.S..

rAAV TUMOR VACCINE TECHNOLOGY – START OF CLINICAL DEVELOPMENT OF A SKIN CANCER THERAPY WITH AVENTIS

Jointly with drugmaker Aventis, MediGene is developing a therapeutic vaccine to treat malignant skin cancer (malignant melanoma) – a so-called tumor vaccine. For the decade ahead, experts see tumor vaccines becoming the main approach to treating melanomas.

Phase 1/2 Trial Started in Europe
The tumor vaccine's phase 1/2 clinical trial began at the end of June 2001. The vaccine is manufactured from endogenous tumor cells into which, with the aid of recombinant Adeno-Associated Viruses (rAAV), the genes of immunostimulant molecules were introduced. MediGene is the first company to fulfill all the European regulatory requirements necessary for carrying out a trial using rAAV technology. The trial, in which terminal stage melanoma patients are taking part, is being held in several European countries.

rAAV Tumor Vaccine Stimulates the Immune System to Fight Cancer
The human immune system possesses the ability to identify and destroy cancer cells. However, it barely recognizes some kinds of cancer cells, such as melanoma and ovarian cancer cells. In using technology of recombinant Adeno-Associated Viruses (rAAV), MediGene has developed a tumor vaccine approach to stimulate the patient's immune system to fight tumor cells.

CVLP TUMOR VACCINE – JOINT PROJECT WITH SCHERING TO TREAT CERVICAL CANCER

The tumor vaccine developed by MediGene and Schering to treat cervical cancer and its precursors is currently undergoing a phase 1/2 clinical trial.

CVLPs Trigger a Comprehensive Immune Response
Cervical cancer and its precursors result mainly from infection by strains 16 and 18 of the human papilloma virus (HPV). To treat these previously untreatable HPV infections MediGene is developing novel therapeutic vaccines – so-called tumor vaccines. They are based on MediGene's chimeric virus-like particle (CVLP) technology. The particles are manufactured using modern genetic engineering methods and made up solely of certain protein components of HPV 16 and 18. The CVLPs correspond in appearance to natural human papilloma viruses. Once the patient has been vaccinated CVLPs can trigger – without the need for further assistance – a full-scale immune response against the virus infection. This technology is considered to be especially safe because, unlike the natural virus, CVLPs lack the genetic material needed to reproduce and to damage cells.

FULL PIPELINE PAVES WAY FOR FUTURE GROWTH

MediGene's objective is to achieve long-term, sustainable corporate growth – based on revenues from the sale of its own drugs. MediGene pursues a strategy of designing its own product pipeline to ensure that it can constantly launch new drugs onto the market. It does so by selecting suitable means of research and development projects and license and acquisition measures. MediGene's present medications pipeline already reflects the successful implementation of this strategy.

»Marketing as I see it is not an isolated element…«

...that comes at the end like the anchor-man in a relay after research, clinical development and market approval, taking the end product and carrying it home like a baton. Marketing rather has to be an integral element of the total process from development to successful sales of the product. It should find itself active in the main phases and interphases of development and registration. Only this way can we assure that our products correspond to market demand – to doctors and patients - and are able to successfully differentiate themselves from fellow competitors.

Dr. Inge Bliestle, Director, Head of Marketing

Market Introduction

For a biopharmaceutical corporation, the sale of one's own therapeutics is a fundamental precondition for profitability and long-term, sustained growth. Product marketing is where the greatest potential for biopharmaceutical value creation lies. Hopes of a potential blockbuster fuel the evaluation of the biotech industry. Drug sales are of fundamental importance for MediGene's business strategy.

APPROVAL

Before a drug can be prescribed by a physician and sold, the regulatory authority of the country in question must grant marketing approval for it. Demands placed on the new drug in this approval procedure are high. In detailed studies it must prove to be an effective, safe, high-quality product.

On average the research and development process takes 10 to 15 years and ends with the marketing authorization application. Numerous files containing all the relevant findings are submitted to the responsible authorities. Usually, a period of one to two years elapses between application submission and approval.

MARKETING

Marketing a biopharmaceutical drug requires integrative concepts, trimmed to suit the different players in the pharmaceutical market – the patient, the doctor, the pharmacist and the wholesaler. The primary person to be addressed is the physician who prescribes drugs. His or her competence as a specialist and responsibility for the patient's health are the basis on which a particular medication is prescribed.

The implication for pharmaceutical marketing is that the doctor needs to be individually approached and personally advised in his or her own practicing environment to ensure the highest possible level of acceptance for the new medication as swiftly as possible.

The complexity of a biopharmaceutical product presupposes the need for a highly qualified counseling and marketing team focused on a specific indication and close-knit contacts with the appropriate medical specialists. The financial investment and time input that goes into building a team of this kind is not warranted for all markets or market segments. For mass markets it may be reasonable to forge strategic alliances with established drug companies that have the necessary marketing force.

During the approval phase marketing concepts are drawn up and work begins on setting up sales channels. Market circumstances such as regional differences in refund procedures are taken into account, as are factors such as size of the market and the competition the product faces.

A WELL-FILLED PRODUCT PIPELINE GIVES MEDIGENE A HEAD START

With a product pipeline that is currently one of the most promising in the European biotech industry, MediGene is in an excellent starting position for continual market launches and sales of its own pharmaceutical products.

Two out of our seven current product candidates – Leuprogel™ and Polyphenon™E – are planned to be launched into the market. For Leuprogel™ we have already submitted a marketing authorization application for Europe.

Etomoxir is another project that has reached an advanced stage of development. Data from the phase 2 trial that is now underway are expected by the year's end.

APPROVAL AND PREPARATION FOR MARKETING ARE RUNNING FULL STEAM AHEAD

MediGene benefited directly when Dr. Johanna Holldack joined the management board in 2000, bringing with her many years of experience and specific competence in dealing with the approval process. Previously, she had served as the vice president of global project management for the U.S. biotech company Chiron, with responsibility for the development and approval of numerous biopharmaceuticals.

The future market success of biopharmaceuticals is decided not only by clinical trial findings. A decisive role is also played by a successful product launch and market positioning.

Sales strategies need to be developed that are customized for the future medication and its target market. This calls for a high level of competence and experience in pharmaceutical marketing. With the arrival of Dr. Inge Bliestle, head of marketing at MediGene since February 2002, we have acquired the expertise of a top-notch management executive.

She has over 10 years of experience in preparing product launches, developing marketing concepts, setting up field sales teams and handling strategic product marketing for various drug companies, including Boehringer Ingelheim. As head of corporate marketing for products to treat illnesses of the respiratory tract at Byk Gulden she was most recently responsible for strategic planning, portfolio evaluation, implementation of the marketing process and negotiations with co-marketing partners.

At MediGene, Dr. Bliestle is in charge of building up an effective team and overseeing the successful market launch of the innovative biopharmaceuticals in our promising pipeline.

The approval and marketing process for Leuprogel™ enables us to build up structures for sales of other pharmaceutical products such as Polyphenon™E ointment.

»The chemistry has to be right.«

Developing a highly promising drug does not necessarily mean that MediGene can profit economically from potential blockbusters. To exploit market potential of a number of important MediGene products to the full we need to find the right marketing partner. He must be able to stage a »global rollout« and must have critical mass and first-rate access to the target groups. The chemistry factor shouldn't be neglected either. The chemistry has to be right.

Dr. Claudius Wamlek, Vice President,
Head of Business Development

Business Development

Business Development

Extensive and fully patent protected products and technology portfolios are a fundamental requirement for success in the bio-pharmaceutical industry. Meaningfully formulated partnerships as well as license and marketing agreements are no less crucial to corporate success than outstanding research and development results.

THE IMPORTANCE OF BUSINESS DEVELOPMENT FOR MEDIGENE

MediGene operates in a global growth market that is both highly dynamic and complex. A decisive factor in future entrepreneurial success is the ability to pinpoint tomorrow's products and technologies at an early stage and to acquire the rights to them.

The concrete implications for MediGene are that it needs to protect its own inventions by patenting them, to analyze its programs regularly with regards to the competition and patent situation, to manage the product and technology portfolios actively by signing license agreements and to conclude new strategic partnerships and cooperation agreements with biotech and pharma, as well as academic research institutions.

ACTIVE SEARCH FOR PROMISING TECHNOLOGIES AND PRODUCTS

At MediGene these tasks are performed by a separate department: Business Development. Scientists, patent experts and experienced business people are constantly looking for and evaluating new technologies and products that can contribute toward corporate value.

If a product or technology has the promise of potential for MediGene, an attempt is made to sign an appropriate license agreement. Lining up, formulating and concluding such agreements is one of Business Development's major tasks.

PATENTS AND LICENSES PROVIDE PROTECTION

The patent and license sector is another important area of activity. Rights to technologies and products must be protected effectively by patents and licenses to search their commercial potential.

Take drug development, for example. The developmental cycle of a medication, from the research laboratory to the conclusion of clinical trials, takes 10 to 15 years. A further year elapses before it gains marketing approval. And commercial success is by no means guaranteed.

Only patents and licenses make successful product marketing possible. Patents are a pharmaceutical product's elixir of life. If these rights do not exist, the product risks losing its exclusivity in the market and may face competition from imitators. The length of patent terms are crucial. The longer the term, the greater the business potential for MediGene. That is why our business development department pursues a consistent patent and license strategy to protect our own technologies and products.

MEDIGENE'S BUSINESS DEVELOPMENT HAS REACHED MAJOR MILESTONES

In 2001 the business development department successfully accomplished a large number of tasks. It was involved not just in lining up the acquisition of NeuroVir Therapeutics, Inc. but also in concluding the technology agreement with Evotec OAI to discover novel drug candidates against cardiac diseases as well as in acquiring the European marketing rights for Leuprogel™. Enlargement of the patent and license portfolio was pursued and numerous international patent applications were submitted.

To cater for growing needs MediGene has made new appointments in this division too at all levels. Dr. Claudius Wamlek, an experienced pharmaceuticals executive, was appointed as vice president of business development. Previously he held the position as a vice director in charge of pharmaceutical licensing with the Roche Group. Dr. Wamlek will strengthen MediGene both in enlarging the product and technology portfolios and in forming new strategic alliances in research, development and sales.

PARTNERSHIPS ARE A PART OF MEDIGENE'S BUSINESS CONCEPT

Medications with new modes of action can only be developed on the basis of innovative therapeutic concepts. As a rule, however, no evidence about the effectiveness and toleration of novel approaches to therapy is available yet. In such cases it is advantageous to develop the technology from an early stage jointly with a partner, and preferably in connection with a specific product candidate.

The development risk and business potential are shared by both parties. The partner is granted marketing rights while MediGene receives research funds at an early stage, license and milestone payments and a share in future product sales revenues. MediGene however retains the rights to the technology and in cases where the project is a success we can transfer the technology to other areas of indication. In this respect our cooperation and license agreements are exemplary. In the future, partnerships are to be formed at the sales level too with a view to launching the drugs that we develop swiftly into pharmaceuticals markets around the world.

Joint Projects with Pharmaceuticals Partners Aventis and Schering

How promising MediGene's technologies are is demonstrated by the agreement with Aventis Pharma Deutschland GmbH on developing a tumor vaccine. This cooperation with Aventis underscores the high scientific quality and therapeutic potential of MediGene's rAAV technology platform. MediGene's CVLP technology platform gained pharmaceutical industry acceptance in 1999. On the basis of this technology we are developing, jointly with our partner Schering, a tumor vaccine against cervical cancer and its precursor stages.

Efficient Search for Novel Drug Candidates with Biotech Partner Evotec OAI

In March 2001, MediGene announced the conclusion of an agreement with Evotec OAI. The aim of this collaboration is to pursue a systematic quest for novel active ingredients to treat certain cardiac illnesses. MediGene has secured all rights to any therapeutic substances that are discovered so that they can then be developed further by MediGene alone or in cooperation with pharmaceutical industry partners.

Investor Relations

The evaluation of biopharmaceutical corporations is based on a complex network of factors. The state of development and economic potential of pharmaceutical product pipeline and technology platforms are no less important than the consistent implementation of the business plan and achievement of strategic objectives.

To date, MediGene has earned revenues from license fees as well as research and milestone payments by pharmaceutical partners with whom we are developing drugs in joint projects. These revenues occur irregularly, such as on the successful conclusion of a certain project phase. That is why steady increases in quarterly earnings are of limited use for evaluation purposes.The timely progress of pre-clinical and clinical drug projects and the results of clinical trials are, in contrast, of major importance. In the future, the market will also judge us by our success in marketing our first product candidate, Leuprogel™.

»It's not just the figures that count.«

Taken on their own, the usual figures are not suitable for evaluating high-growth biopharmaceutical companies like MediGene that, as a rule, generate neither revenues nor profits until the first drug or maybe even the hoped-for blockbuster, hits the market. Developing drugs is always an investment in future growth. Our challenge consists of boosting confidence in MediGene by means of timely, comprehensible, transparent and reliable investor relations.

Angelika Heinz, Vice President, Head of Finance/Dr. Michael Nettersheim, Manager Investor Relations

THE MEDIGENE SHARE – ON DYNAMIC ROAD TO RECOVERY SINCE FALL 2001 LOW

2001 was an ill-fated year for stock markets: Relativized expectations of the New Economy were accompanied by a worldwide downturn of the international economic cycle that was further intensified by the dramatic events in the U.S. In Germany, the difficult market situation led to a loss of confidence in the growth segment Neuer Markt.

Neither the Nemax 50 index of most important shares listed on the Neuer Markt, nor the Nemax Biotech Index were able to buck the trend. Both of them sustained serious losses.

The negative market environment caused MediGene's share price to fall significantly from the New Year, thus underperforming the corresponding indices even though MediGene consistently pursued successful implementation of its strategy and published details of its progress in a timely and transparent manner.

After the September 2001 low, the situation changed perceptibly. The MediGene share price has since significantly outperformed the key comparative indices, due in part to the »buy« recommendations made by numerous analysts who cover MediGene. They did so in view of both the company's steadily positive overall development and as an expression of confidence in the management and in future developments at MediGene.

INVESTOR RELATIONS – TRANSPARENCY, CONTINUITY AND TIMELINESS

In our investor relations work we intend to communicate our equity story in a comprehensible way to analysts, current and potential investors. We intend to bring value enhancers clearly to the fore and to outline fundamental developments in the company. Our objective is to ensure both an appropriate valuation of MediGene stock and a stable share price. To do so we pursue a strategy of attracting investors and shareholders with a long-term horizon in the world's capital market. That can only be achieved on the basis of confidence, which to us means transparent communication and continuous, timely coverage of corporate developments.

In 2001 we provided, in addition to the statutory financial reports, information about the latest developments at MediGene in 32 press releases and ad-hoc announcements, always focusing on fundamental facts.

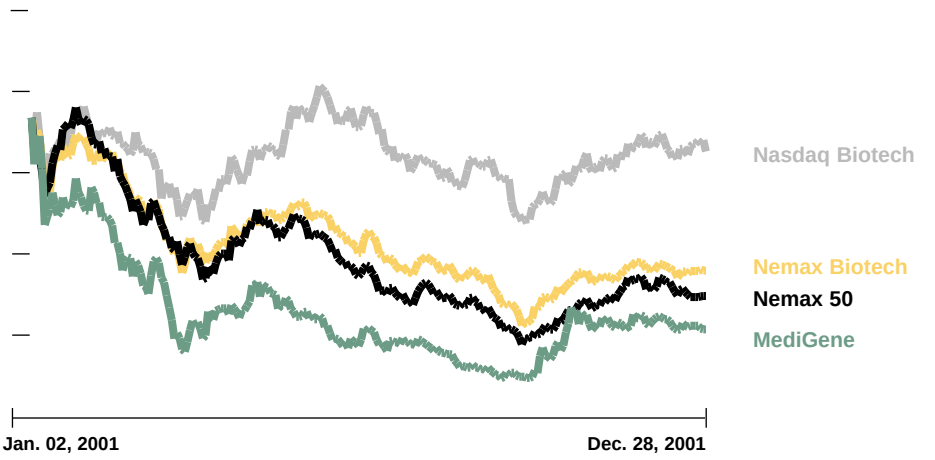
COMPREHENSIBLE COMMUNICATION OF RESEARCH, DEVELOPMENT AND FINANCES

In view of its great potential and fundamentally outstanding prospects, the biopharmaceutical industry has increasingly become a focus of attention for institutional and private investors. Complex business models and complicated scientific research and development contexts pose high demands on the investor relations work of a biopharmaceutical corporation.

In our IR Team we combine both financial and scientific expertise. Angelika Heinz, who as the Vice President of Finance was responsible for the IPO and the acquisition of NeuroVir Therapeutics, Inc., outlines MediGene's business plan and the figures. Dr. Michael Nettersheim, a chemist, explains the scientific context on which MediGene's research and development projects are based. By means of a competent and comprehensible portrayal of our company we aim to achieve transparency and credibility and thereby lay the necessary groundwork for an investment in MediGene stock.

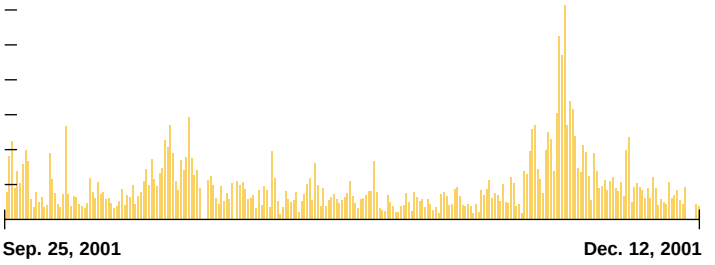
Share price 2001

(Index Jan 02, 2001 = 73,5 €)



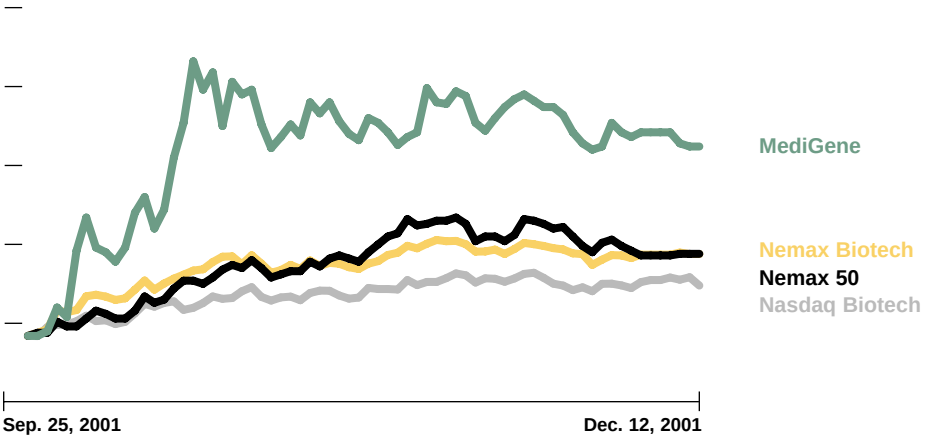
Volume

in thousands



Share price since Sep. 25, 2001

(Index Sep. 25, 2001 = 9,2 €)



INTENSIVE COMMUNICATION WITH ANALYSTS, INSTITUTIONAL INVESTORS AND THE MEDIA

More than 25 teams of analysts from well-known investment banks in Germany and other countries subject MediGene to constant analysis and evaluation.

At the annual research and development conference, held in October, over 30 analysts took the opportunity to gain a detailed insight into MediGene's technology platforms, product candidates and business strategy.

Numerous management road shows held in Europe and the U.S. played their part in opening up new groups of investors. Many investors visited MediGene to find out more about the company in one-on-one talks. In the U.S. especially we aroused interest among new analysts and investors with our active communication policy.

Our Public Relations Team maintains intensive contacts with the relevant media. In December, for instance, MediGene initiated a Biotech Information Day for Financial Journalists in Martinsried.

At press conferences on the financial statements and other major events, and in more than two dozen interviews with the financial press, radio and TV our Public Reations Team kept the media constantly informed on developments at MediGene.

SUCCESSFUL DIALOG WITH PRIVATE INVESTORS

MediGene's shareholder base grew markedly wider in 2001. We attracted a large number of new private investors. This success shows how seriously we take this category of investors. We attach importance to the dialog with our investors and make intensive use of the Internet as a communication platform. On the Internet we give existing and potential shareholders an opportunity to sign up for e-mail information about latest developments at MediGene.

CONVERTIBLE BOND PROGRAM FOR EMPLOYEES, EXECUTIVE BOARD AND SUPERVISORY BOARD

We attach special importance to forging long-term ties with our staff. For this purpose MediGene has issued convertible bonds to all employees as a performance-related bonus. They run for a five-year term from the date of issue. The conversion price is 120% of the average MediGene share price in the final XETRA auction at the Frankfurt stock exchange over the 60 trading days prior to the day of issue or the XETRA opening price on the day of issue. The higher price of the two will apply. MediGene is authorized to issue up to 670,000 stock warrants to employees and management. By December 31, 2001, 171,036 warrants had been issued.

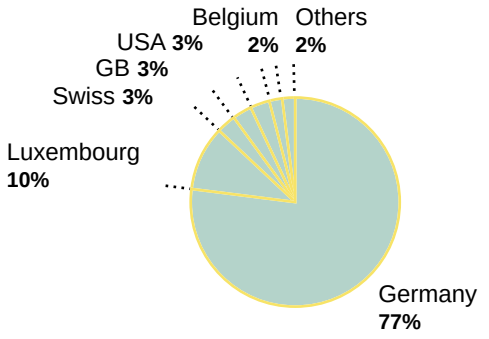
MAKING MEDIGENE EVEN MORE WELL-KNOWN

We aim to make MediGene even more well-known in the global capital market so that the company is increasingly perceived by private and institutional investors and analysts as an internationally active biopharmaceutical corporation.

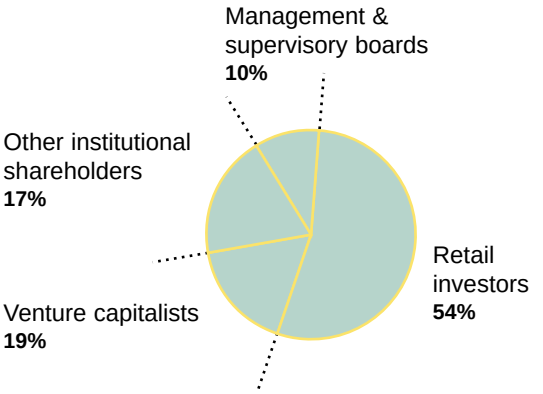
We will continue to lay the groundwork for this by means of continuous and transparent financial communication even when times are hard in the stock market.

In the process we will be active in all areas: attending high-profile investment conferences, holding road shows in the U.S. and Europe, maintaining and consistently extending our contacts with analysts and the media and widening the scope of our website.

Share Structure by Region



Share Structure by Investors



Stock ID Code:	MDG
Security Code Number:	502 090
SE Code	DE000 502 0903
Common Code:	1107 3026
CUSIP:	993 906 FV5
Reuters-Symbol:	MDGGn
Bloomberg-Symbol:	MDG
Indices:	NEMAX 50, Neuer Markt Biotech Index

Stock exchanges:
Berlin, Bremen, Dusseldorf, Frankfurt, Hamburg, Hannover, Munich, Stuttgart, Xetra

Designated Sponsors:
Commerzbank, Bank Vontobel, Morgan Stanley

Key Figures per Share

	2000	**2001**
52 weeks high (€)	130.0	78.0
52 weeks low (€)	51.0	8.1
Opening price (€)	55.0*	70.1
Year end closing price (€)	73.5	21.2
Mean share price of the year (€)	82.99	25.42
Number of shares	10,106,722	11,198,637
Average number of shares	8,417,423	11,003,245
Average market capitalization (in million €)	838	280
Average daily trading volume	114,451	103,844
Dividend per share (€)	0	0
Cash flow/share (€)	8.19	– 1.08
Equity/share (€)	11.75	8.97

*Opening price on June 30th, 2000

Financial Information

MANAGEMENT REPORT

The Executive Board of MediGene AG is responsible for drawing up the consolidated financial statements. It does so on the basis of U.S. GAAP. Compliance with § 292 a of the German commercial code (HGB) exempts the company from the requirement to draw up consolidated financial statements based on German law. In particular, the consolidated management report was drawn up with regard for the provisions of the German commercial code.

We use a uniform reporting system, reliable software and an effective in-house management and control system to ensure that accounting principles are upheld and corporate reporting is in accordance with regulations. The system also lays a reliable foundation to ensure that the progress of business is mapped in such a way as to reflect the true conditions accurately. Our comprehensive risk management system that is adapted flexibly to new situations and constantly improved, enables the Executive Board to identify at an early stage risks to the company's assets and changes in individual projects, enabling it to introduce suitable counter-measures.

In accordance with the resolution of the Annual General Meeting, the Supervisory Board appointed PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft, of Munich as independent auditors to audit the consolidated financial statements. The auditor issued the unqualified audit certificate that is printed hereafter.

The Supervisory Board has discussed the consolidated financial statements, the consolidated management report and the audit in detail with the auditors. Its findings are outlined in the Supervisory Board's report.

Martinsried, March 2002
MediGene AG
The Executive Board

Dr. Peter Heinrich
CEO & Board Chairman

Dr. Johanna Holldack
COO & Head of
Research & Development

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

- **Strong cash position: 86.8 million € for continued financing of our research and development activities**
- **Average net cashburnrate of 2.4 million € per month**
- **Increase of 29% in income from joint ventures with pharmaceuticals corporations to 7.2 million €**
- **R&D investment of 27.7 million € in developing our product and technology portfolios**
- **Annual result mirrors the accounting charge for one-time recording of costs totaling 86.5 million € for IPR&D (in process research & development) in connection with the acquisition of NeuroVir Therapeutics, Inc.**

Framework Data

WORLDWIDE ECONOMIC DOWNTURN

Fiscal 2001 was marked by a clear slowdown in the global economy. Relativized expectations of the New Economy were joined by the dramatic events in the United States that led to a great deal of uncertainty, especially in industrial countries. In the U.S., for example, real GDP growth was a mere 1.0%, while in Germany it was just 0.6%.

These recessive trends were reflected among other things in a marked increase in the number of unemployed worldwide. The inflation rate in Europe, due to special effects such as increased oil prices, rose unexpectedly to 2.1%. The euro was unable to hold its own against the U.S. dollar and in 2001 lost 5.3% against the U.S. currency.

General uncertainty about future developments made people much more reluctant to invest, particularly in the technology sector.

The Federal Reserve tried to counter these developments by cutting the key interest rate several times in swift succession. The European Central Bank followed suit in September with the aim of bringing additional liquidity to the capital market. However, by the year end these monetary measures had brought about no noticeable revival in the world economy.

Global capital markets in 2001 went through a marked downward adjustment. In Germany, the difficult market situation led to a loss in confidence in the Neuer Markt growth segment.

From September 2001 the biotech indices on the world's stock exchanges outperformed the share price development of pharmaceutical companies.

GOOD ECONOMIC FRAMEWORK FOR BIOTECH COMPANIES

Good Support for Basic Research in Germany
The Boston Consulting Group's most recent study (November 2001) on Germany's competitiveness as a location for research into and development of drugs found that basic-research budgets in Germany are second only to those in the U.S..

For the period 2001 to 2005, Germany's Federal Ministry for Education and Research (BMBF) has earmarked roughly 803 million € for project promotion. This indicates good prospects for German biotechnology in comparison with European competitors. Nevertheless, Germany is not expected to close the U.S. lead in the biotech industry in the medium term.

A Year of Focusing in Biotechnology
For the biotechnology sector, 2001 was a year of realignment from pure technology platform companies to product companies, and of consolidation. Major takeovers in the United States dominated the picture especially toward the end of the year. Only a few cooperation

and partnership agreements with major pharmaceutical firms and licensing of single products and technologies were signed.

Size as expressed by market capitalization and cash resources has increasingly become a success factor that permits a company to react flexibly to the volatility of stock markets and to survive in the long term.

Research Findings Must be Patentable
Since the decoding of the human genome, a heated debate has been under way worldwide about the permissibility of patenting genes. The core question whether patenting actually encroaches on human dignity has currently to be answered in the negative.

On the one hand, according to the EU guideline, lawmakers only allow a patent to be registered if it is for an invention. For instance, a discovery must have been made of the role of a gene in a particular disease. Only then can it form the basis of a therapeutic or diagnostic aid and be used commercially.

On the other, a patent does not establish a claim to ownership but only a time-limited right to ban third parties who want to make commercial use of the patentholder's invention.

It is crucially important for biotechnology and pharmaceuticals companies to patent substance and indication, since a type of therapy per se cannot be patented for ethical reasons. Therefore, patents of this kind are a compelling economic requirement for biotech companies.

The Pharmaceuticals Industry Needs Biotech to Go on Growing
At a time when patents for many top-selling drugs are expiring, the pharmaceuticals industry worldwide is confronted with an innovation gap. Too few products are in the development pipeline to provide the necessary growth. On average, the big pharmaceuticals corporations launch less than one new product per year on the market.

In the cardiovascular disease and cancer field, especially, there is a lack of promising medicines with new modes of action in both early and advanced stages of development.

This deficit in the pharmaceuticals industry is the biotechnology industry's opportunity. By 2003, roughly 60% of newly approved medicines are expected to originate in biotech laboratories. The driving force of growth in the pharmaceuticals industry is various kinds of joint ventures with biotech companies that provide innovative technologies enabling the development of new, effective drugs.

MediGene has both. Several unique technology platforms enable it to develop wholly new approaches for more effective, causal treatment of certain cardiac and tumor diseases. They are the source of our development pipeline of innovative medicines.

Group Overview

PRELIMINARY REMARKS

MediGene's first drug is expected to be launched on the market in 2003. Until then, we will earn no revenues. Consequently, below we only deal with other operating income. The order situation is similar. Until we enter the market we will not receive any actual orders, but we report on cooperation and license agreements with Schering and Aventis that affect other operating income.

Profit and Loss Account (Abbreviated)

in T€	1999	2000	**2001**
Other operating income	5,960	6,354	7,493
R&D costs	– 7,845	– 13,774	– 27,672
Business development and general admin.	– 1,439	– 2,528	– 5,736
EBITDA	**– 3,324**	**– 9,948**	**– 25,915**
Depreciation	– 269	– 394	– 928
Goodwill depreciation	0	0	– 1,845
EBIT before write-off IPR&D	**– 3,593**	**– 10,341**	**– 28,689**
Write-off IPR&D	0	0	– 86,543
Operating loss	**– 3,593**	**– 10,341**	**– 115,232**

Hence MediGene's present success cannot be measured quantitatively, but depends on research findings and on the pre-clinical and clinical studies we are conducting to gain market approval for our medicines.

NEUROVIR THERAPEUTICS, INC. RENAMED MEDIGENE, INC. – ESTABLISHING A PRESENCE IN THE UNITED STATES

NeuroVir Acquisition Expands Product and Technology Portfolio
We completed our takeover of the U.S. biotechnology corporation NeuroVir Therapeutics, Inc. by means of a stock swap in March 2001. MediGene, Inc. is now a wholly-owned subsidiary of MediGene AG.

Through this acquisition we placed MediGene's product and technology portfolio on an even broader base, adding two cancer drugs at the clinical development stage (G207 and NV1020), oncolytic herpes simplex virus (HSV) technology and amplicon technology. They are currently undergoing further development by our team in the United States.

MediGene now has a strong presence in the United States, the world's biggest and most important pharmaceuticals market. Right now our American operations are pure research and development activities. The U.S. team is part of our R&D organization and the associated reporting structures. MediGene plans its first sales activities in the United States with Polyphenon™E. Depending on the final study design of the phase 3 clinical trial the market entry is expected for end 2003 up to the beginning of 2005.

JOINT VENTURES AND LICENSE AGREEMENTS WITH SCHERING AND AVENTIS

Business Activity Focused on R&D
MediGene's business activities in 2001 were concentrated on research and development (R&D) of new drugs and technologies that are the foundation for future drug sales.

Strategic partnerships with pharmaceuticals corporations underscore the value of our R&D activities, not least with respect to their future significance on the market.

Strategic Alliance with Schering to Develop a CVLP Vaccine
The technology behind our therapeutic CVLP vaccine against cervical cancer and its precursor stages is being validated by means of a strategic alliance with Schering AG.

The global cooperation and licensing agreement made in 1999 to develop and market the vaccine is worth up to 55 million € – not including the license fees agreed – and is open-ended.

It includes a jointly agreed R&D budget for the development program in which MediGene will participate until proof of concept and upfront and milestone payments.

Under this agreement, MediGene will be responsible for research and pre-clinical studies. The parties will conduct the Phase 1/2 study jointly. Subsequent clinical trials, approval and marketing are Schering's responsibility. In return, Schering will receive a globally exclusive license.

Development of a Skin Cancer Vaccine with Aventis
MediGene in 2000 entered a strategic alliance with Aventis Pharma to develop a therapeutic tumor vaccine for treating malignant melanoma.

The agreement is open-ended. Under this agreement, Aventis will receive an exclusive license to develop and market the vaccine. The total value of this agreement can amount to 37 million €, inclusive of milestone payments and the jointly agreed R&D budget which MediGene will co-finance until the proof of concept is obtained.

Additionally, MediGene will receive royalty payments on product sales. Both companies are involved in the execution of the phase 1/2 clinical study. Aventis manufactures the active ingredient according to GMP (good manufacturing practice). Aventis will be responsible for phase 3 clinical trials and marketing.

OTHER OPERATING INCOME +18%

Income from Strategic Alliances
MediGene earned income from strategic alliances with Schering and Aventis. It comprised mainly research and development payments, milestone payments and license fees MediGene received from these partners and was booked as other operating income.

The level of R&D payments from our partners depends on the costs incurred by MediGene in the joint projects; the higher the costs, the higher the other operating income. Hence other operating income is no indicator of the company's present or future success.

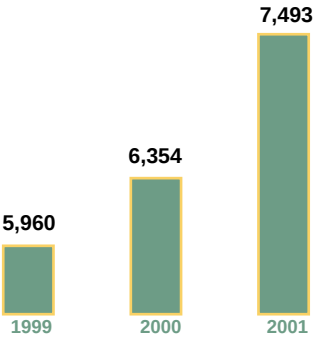
All operating income came from activities of the parent company and accrued in Germany. Therefore the growth in earnings was internal growth achieved independently of acquisitions and exchange-rate effects.

Accruals, Deferrals and Report of Payments
US-GAAP requires upfront payments made by the pharmaceutical partner to MediGene when a new agreement is signed to be spread over the entire term of the contract and reported as other operating income. As a result, cashflow increases by the full amount of the payment, while other operating income is only recorded pro rata over the product development period or contract term. Before 2000, these one-time payments were recognized immediately. No new contracts governed by the new regulation were made in 2001.

MediGene in 2001 recorded no deferred income. This is because the agreement with Schering was amended in 2001 to eliminate the reason for deferred income shown in 2000, that is, a possible obligation to return R&D payments to Schering. Therefore the deferred income item was reversed.

Milestone payments may be fully recognized in the year when the milestone is reached since they accompany successful completion of the service.

Other Operating Income
in T€



Other Operating Income

in T€	1999	2000	**2001**
HPV-Indications	2,910	4,287	4,797
Oncology	2,602	1,770	2,394
Cardiology	416	274	229
Intersegment	32	23	73
Total	**5,960**	**6,354**	**7,493**

R&D COSTS ROSE BY 101%

Our R&D programs were significantly expanded as a result of the NeuroVir takeover. In addition, MediGene in fiscal 2001 pushed ahead strongly with its internal research and development programs.

We began three new clinical studies. In all, seven drugs are now at various stages of clinical development. The acquisition of NeuroVir Therapeutics, Inc. added two further products to our drugs portfolio.

MediGene acquired the European marketing rights to the Atrix Laboratories, Inc. drug Leuprogel™, which is developed to treat advanced prostate cancer. We also made a cooperation agreement with Evotec OAI to find novel active compounds for the treatment of certain cardiac diseases.

BUSINESS DEVELOPMENT AND GENERAL ADMINISTRATION COSTS ROSE BY 127%

Business development and general administration costs rose to 5,736 T€ in 2001 (2000: 2,528 T€) – a 127% increase. This increase was due to the stepping up of activity in the patents and licenses field, to further expansion of business development and to intensify capital market communication (see Investor Relations section).

Intellectual property rights were extended by newly awarded patents and the purchase of additional licenses. MediGene currently holds 15 patents or imminent patents in Germany and 24 patents in the United States (see p. 57).

We also registered patents for numerous discoveries resulting from our own research. We now have 22 patents pending in Germany, 37 in the United States and 9 internationally.

We have licensed certain technologies and products from partners. In these cases the respective partner holds the patent rights.

MediGene in 2001 signed important license and cooperation agreements with the German Cancer Research Center (Deutsches Krebsforschungszentrum) in Heidelberg, the National Cancer Research Institute in New York, the Children's Hospital in Boston and the University of Munich Gene Center.

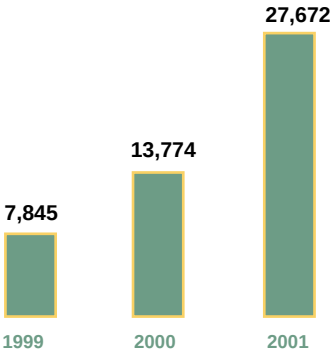
As yet, MediGene is not engaged in sales activities. So far, selling expenses shown in the profit and loss statement comprise exclusively costs incurred for business development.

EBITDA DEVELOPED ACCORDING TO PLAN -161%

Earnings before interest, tax and depreciation (EBITDA) moved according to plan, from –9,948 T€ to –25,915 T€. This development was due mainly to an increase in acquisition-related costs (NeuroVir) in the oncology segment.

R&D Expenditure

in T€



R&D Expenditure by Segment

in T€	1999	2000	**2001**
HPV-Indications	4,633	7,847	7,254
Oncology	1,594	2,149	11,944
Cardiology	1,247	2,561	5,976
Intersegment	371	1,217	2,498
Total	**7,845**	**13,774**	**27,672**

Change in EBITDA by Segment

in T€	1999	2000	**2001**
HPV-Indications	– 1,723	– 3,560	– 2,457
Oncology	1,008	– 378	– 9,550
Cardiology	– 831	– 2,288	– 5,747
Intersegment	– 1,778	– 3,722	– 8,161
Total	**– 3,324**	**– 9,948**	**– 25,915**

DEPRECIATION ROSE BY 603% DUE TO ACQUISITION

Depreciation rose by a total of 603% year on year, to 2,773 T€. This increase was attributable mainly to depreciation of capitalized goodwill on acquisition of NeuroVir Therapeutics, Inc. This resulted in a charge of 1,845 T€ on the 2001 operating result.

Depreciation

in T€	2000	**2001**	Change
of goodwill	0	1,845	
of fixed assets incl. intangibles	223	651	+ 192%
of capitalized leased items	171	277	+ 62%
	394	**2,773**	**+ 603%**
Depreciation excluding goodwill	394	928	+ 135%

EBIT DEVELOPED ACCORDING TO PLAN -177%

Earnings before interest and tax (EBIT) developed according to plan from –10,341 T€ to –28,689 T€.

EBIT by Segments*

in T€	1999	2000	**2001**
HPV-Indications	– 1,788	– 3,728	– 2,708
Oncology	918	– 466	– 9,914
Cardiology	– 883	– 2,359	– 5,907
Intersegment	– 1,840	– 3,788	– 10,160
Total	**– 3,593**	**– 10,341**	**– 28,689**

* excluding write-off IPR&D

MARKED IMPROVEMENT IN FINANCIAL RESULT +340%

The financial result improved markedly year on year, with a profit of 4,742 T€ (2000: 1,078 T€). This 340% increase is essentially due to the improvement in capital resources resulting from the IPO in June 2000. Interest earnings and currency gains came from low-risk capital investments. Interest costs were incurred primarily for the acquisition of leased fixed assets.

MediGene realized investment earnings from the sale of shareholdings. We sold our shares in MediGenomix GmbH Gesellschaft für molekularbiologische Analysen, Genomforschung und Technologie to Eurofins Scientific GmbH for strategic reasons.

Financial Result

in T€	1999	2000	**2001**
Interest income	0	3,364	4,039
Interest expense	– 152	– 2,211	– 81
Disposal of investments	0	0	400
Foreign currency exchange gains/losses	0	– 75	384
Total	**– 152**	**1,078**	**4,742**

IPR&D COSTS ARISING FROM ACQUISITION

MediGene in 2001 booked costs totaling 86,543 T€ (2000: 0 T€). In accordance with the purchase method, it was recorded as in-process research and development (IPR&D) for the G207 and NV1020 projects acquired in the first quarter 2001 on acquisition of NeuroVir Therapeutics. This was a one-time write-off and not linked to any cashflow. We acquired NeuroVir Therapeutics largely by means of a stock swap (ca. 90% by means of a stock swap, ca. 10% for cash in 2000).

NET LOSS FOR THE YEAR INCREASED +159%

Rapid advances in product development and the expansion of business activities led in 2001 to a net loss for the year without taking account of IPR&D costs of –23,947 T€ (2000: –9,264 T€), an increase of 159% and according to plan. The net loss taking into account the IPR&D costs for the acquisition of NeuroVir Therapeutics, Inc. was –110,490 T€ in 2001.

Loss Per Share Increased
The actual net loss per share (basis: 11,003,245 shares) on December 31, 2001 was –10.04 €, 8.94 € below the previous year's level. Adjusted by IPR&D costs, the actual net loss for 2001 was –2.18 € per share. The fully diluted net loss corresponded at the time of reporting to the actual loss since the conversion of common stock equivalents would be anti-dilutive.

Segment Reports

MediGene currently operates in three major segments of the biopharmaceuticals market; cardiology, oncology and HPV indications. Seven candidate drugs are in the process of clinical development or market approval. MediGene in 2002 began three new clinical trials.

Intersegment other operating income in 2001, totaled 73 T€ (2000: 23 T€). In addition, not directly attributable write-offs totaling 153 T€ (2000: 67 T€) were recorded.

Business development and general administration costs totaling 5,736 T€ (2000: 2,528 T€) and goodwill depreciation of 1,845 T€ (2000: 0 €) were not allocated to the segments.

Expenditure on other research and development activities in 2001 totaled 2,498 T€ against 1,217 T€ in 2000.

HPV INDICATIONS

MediGene earned the other operating income in the HPV indications segment in the context of a strategic alliance with Schering to develop a therapeutic substance for treating cervical cancer and its precursor stages.

R&D Costs
R&D costs decreased in 2001, mainly due to a drop of 8% in legal fees paid in connection with the Loyola lawsuit.

HPV Indications

in T€	1999	2000	**2001**
Other operating income	2,910	4,287	4,797
R&D costs	– 4,633	– 7,847	– 7,254
EBITDA	**– 1,723**	**– 3,560**	**– 2,457**
Depreciation	– 65	– 168	– 250
EBIT	**– 1,788**	**– 3,728**	**– 2,708**

Other Operating Income
HPV Indications

in T€	2000	**2001**	Change
R&D payments received from partners	1,085	3,560	228%
Legal fee funding from partners	2,250	0	
Milestone and license fee payments	946	1,227	30%
Research grants	6	0	
Other revenue	0	9	
Total	**4,287**	**4,797**	**12%**

MediGene successfully completed the first phase 3 clinical trial of Polyphenon™ E for the treatment of benign genital tumors, otherwise known as genital warts, in the fourth quarter 2001.The findings showed that the Polyphenon™ E-ointment worked very well and had a very positive side-effect profile. 260 Patients took part in the clinical trial. We are now preparing a second phase 3 trial.

The clinical trial of the CVLP vaccine began in Q4 2000. Recruitment of patients is now in full swing. We expect initial results from this trial by Q4 2002.

CARDIOLOGY

The other operating income in the cardiology segment consisted of grants for basic research in connection with the Integrated Target Definition (ITD) platform.

R&D Costs

In the cardiology segment, MediGene is engaged in researching the causes of cardiac diseases and is seeking starting-points for developing new active ingredients for treating these diseases. We use our ITD platform for this purpose.

Our candidate drug Etomoxir for the treatment of congestive heart failure is in phase 2 of clinical development. Recruitment of patients is to be completed and initial findings of the phase 2 trial to be presented in 2002.

The expansion of our research activities, the use of state-of-the-art validation and screening technologies and of bioinformatics, and high investment in the clinical development of Etomoxir led to an increase in R&D costs.

We substantially improved the ITD program's commercial potential by signing a technology agreement with Evotec OAI. By doing this MediGene closed the gap between identifying the causes of disease and developing active substances.

Under this agreement, MediGene will supply the molecular starting-points for screening for new drugs, while Evotec will make available its screening technology and library of active ingredients. MediGene will receive all rights to the candidate active substance discovered. We plan to develop any active substance discovered alone or with partners until they are ready for use as drugs.

Cardiology

in T€	1999	2000	**2001**
Other operating income	416	274	229
R&D costs	– 1,247	– 2,561–	– 5,976
EBITDA	**– 831**	**– 2,288**	**– 5,747**
Depreciation	– 52	– 71	– 160
EBIT	**– 883**	**– 2,359**	**– 5,907**

Other Operating Income
Cardiology

in T€	2000	**2001**	Change
R&D payments received from partners	0	0	
Legal fee funding from partners	0	0	
Milestone and license fee payments	0	0	
Research grants	274	223	– 18%
Other revenue	0	6	
Total	**274**	**229**	**– 16%**

ONCOLOGY

MediGene earned the other operating income in the oncology segment from a strategic alliance with Aventis relating to malignant melanoma.

R&D Costs

The increase in R&D costs in the oncology segment was primarily attributable to our U.S. subsidiary MediGene, Inc., which has been consolidated since March 2001.

In the oncology segment, MediGene is currently engaged in four projects: Leuprogel™ for the treatment of advanced prostate carcinoma, rAAV tumor vaccine for treating malignant melanoma, G207 for the treatment of malignant brain tumors and NV1020 for treating liver metastases.

In April 2001 we acquired the European marketing rights for Leuprogel™ from the U.S. biotechnology company Atrix Laboratories, Inc. Our partner Atrix already has FDA approval to market Leuprogel™ as a one-month depot product in the USA, and has applied for FDA approval of the three-month depot product. Based on the successful trial results of Atrix, MediGene has applied to the European authorities for approval to market the one-month depot product. The application for the three-month product is to follow in the first half of 2002. MediGene plans to launch Leuprogel™ on the market in 2003.

We started phase 1/2 of clinical trials of the tumor vaccine developed jointly with Aventis for the treatment of malignant melanoma. The first results are scheduled to be presented in 2003.

After successfully completing the phase 1/2 trial of the cancer drug G207, MediGene in the fourth quarter 2001 launched the phase 2 clinical trial of this product in the United States. Initial findings are expected in 2003.

We also began clinical phase 1/2 of NV1020 in 2001. Meanwhile, the first patients have been recruited. We expect initial results in the second half of 2002.

Differently from 2000, we have not allocated income and expenditure that was not clearly attributable to one of these segments, but shown it separately as intersegment. Further details can be found in the notes to the financial statements.

Oncology

in T€	1999	2000	**2001**
Other operating income	2,602	1,770	2,394
R&D costs	– 1,594	– 2,149	–11,944
EBITDA	**1,008**	**– 378**	**– 9,550**
Depreciation	– 90	– 88	– 364
EBIT	**918**	**– 466**	**– 9,914**

Other Operating Income
Oncology

in T€	2000	**2001**	Change
R&D payments from partners	1,179	1,372	16%
Legal fee funding from partners	0	0	
Milestone and license fee payments	102	1,023	900%
Research grants	489	0	
Other revenue	0	0	
Total	**1,770**	**2,394**	**35%**

EXTENSIVE IP POSITION

Patents granted or allowed

	HPV	Oncology	Cardiology
Germany	3	8	4
U.S.	4	18	2

Patents pending

	HPV	Oncology	Cardiology
Germany	9	7	6
U.S.	11	17	9
International	2	4	3

HPV
Polyphenon™E, CVLP-Vaccines and Technology

ONCOLOGY
Leuprogel™, Melanom/rAAV, NV1020, G207, Amplicon

CARDIOLOGY
ITD, Etomoxir

Investments

INVESTMENT IN TANGIBLE ASSETS INCREASED BY 55%

MediGene in 2001 increased investments by 55% year on year. 18% of this investment was made via cash-saving capital lease agreements.

Investments in tangible assets including software totaled 2,641 T€ (2000: 1,707 T€) and were primarily for technical improvements to the laboratories. Tangible-asset investments in the oncology segment rose by 626% on the year, while they declined in the cardiology and HPV indications segments due to the progress made with projects. Investments were spread across a wide range of different equipment and fittings, and no individual investment requires highlighting.

ACQUISITION OF NEUROVIR THERAPEUTICS, INC.

Transaction Structure
MediGene on January 12, 2001 acquired the remaining shares (ca. 90%) in NeuroVir Therapeutics, Inc. by means of a stock swap and registered the corresponding capital increase in the trade register on February 23, 2001. These shares were included in the existing listing on March 13, 2001.

The 996,631 MediGene shares transferred in the stock swap were valued at 90.50 € per share (total: 90,195 T€). That was the price on November 9, 2000, the day when the deal was announced. MediGene had previously bought a ca. 10% stake (750,000 shares) in NeuroVir for cash on May 19, 2000 at a purchase price of 3,117 T€. Including fees and miscellaneous expenses, the total purchase price for NeuroVir was 94,760 T€.

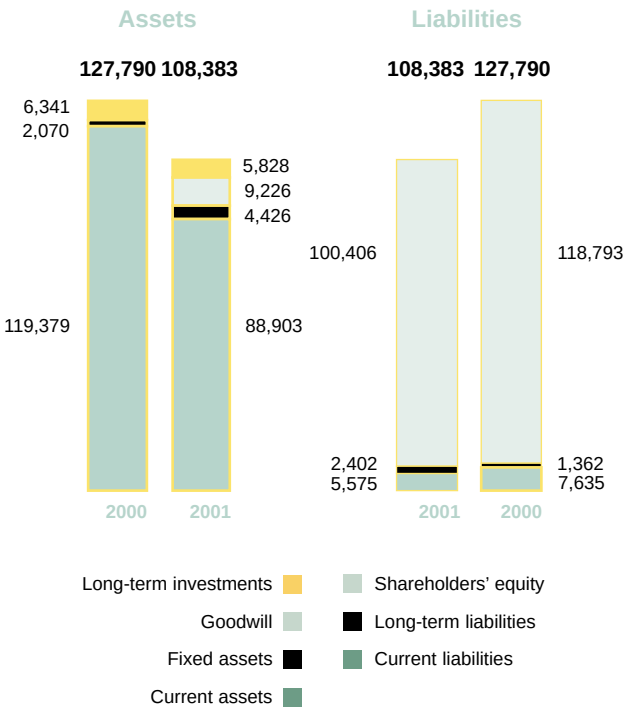
In accordance with the purchase method, costs of 86,543 T€ for the G207 and NV1020 development projects acquired were shown in the profit and loss statement in the first quarter 2001 as in process research and development (IPR&D).

MediGene, Inc. was fully consolidated from March 1, 2001. The costs of the G207 and NV1020 projects that it is conducting were included in the consolidated financial statement.

Successful Integration of MediGene, Inc.
MediGene, Inc. was successfully integrated in 2001 and has already made a substantial contribution to enhancing the economic potential of oncolytic HPV technology. Our American location has been extended and additional personnel have been taken on. The G207 project for the treatment of malignant brain tumors and the NV1020 project for treating liver metastases made good progress, with G207 entering phase 1b/2 of clinical development and NV1020 beginning phase 1/2.

To integrate the staff of MediGene, Inc. into the group we drew up an integration plan. An integration team worked actively pushing ahead with it. Scientists on both sides of the Atlantic engage in regular exchanges. Conference calls and project discussions are held at least weekly. Formal teams and committees meet at regular intervals to make important development decisions. The members of these bodies include MediGene Inc. staff who share equal rights. Managers and project managers at our U.S. subsidiary are involved in important group decisions.

Balance sheet structure
in T€



The employee shareholding program was modified to comply with both German and U.S. legal requirements.

Expectations Linked with this Acquisition
This acquisition is of great strategic importance for MediGene in several respects:

- We expanded our product portfolio by two further product candidates for treating malignant, incurable forms of cancer, that is malignant brain tumors and liver metastases
- We added two platform technologies to our technology portfolio: oncolytic herpes simplex viruses based on modified herpes simplex viruses (HSV) and amplicon technology. The HSV technology is protected by a far-reaching global patent
- We improved our competence in dealing with the U.S. Food and Drug Administration thanks to the experience of MediGene, Inc.
- We gained access to an extensive clinical and scientific network

MEDIGENOMIX HOLDING SOLD

MediGene AG in1998 separated off the DNA sequence analysis department and brought it into MediGenomix GmbH. Having decided to focus on core business, in May 2001 MediGene pulled out of the service business by selling its 30% holding in MediGenomix GmbH to Eurofins Scientific GmbH. MediGene earned 409 T€ from the sale of these shares.

Assets Positions

CHANGES IN ASSET AND CAPITAL STRUCTURE

Total fixed assets, including goodwill and financial investments, increased by 269% in 2001. This structural change is mainly attributable to the capitalization of goodwill of 11,071 T€ in the context of the NeuroVir Therapeutics, Inc. acquisition. This is recorded on December 31, 2001 under fixed assets at a book value of 9,226 T€.

The reduction in current assets is explained by cash-burn. Inventory increased by 41% to 575 T€ (previous: 409 T€) by the extension of our laboratories. Receivables declined by 84%, from 2,070 T€ in 2000 to 334 T€. The 2000 figure was unusually high due to an invoice issued in December to Aventis for a milestone payment.

Shareholders' equity decreased according to plan in 2001. MediGene financed product development primarily with equity capital obtained as issue proceeds from the Neuer Markt IPO.

The decrease in loan capital is explained by the reversal of deferred income. This was possible because we no longer had potentially to repay R&D payments to Schering. The milestone payment by Aventis that had been included in deferred income was also reversed, due to progress with the project.

Working capital was reduced by 25% in 2001, from 111,744 T€ in 2000 to 83,328 T€ as a result of cash-burn.

The equity ratio, or the proportion of equity in the balance-sheet total, on December 31, 2001 was 93%, the same as in the previous year.

The liquidity ratio, calculated as a proportion of the total of cash and cash equivalents and securities in the balance sheet total, was 80% on December 31, 2001 (December 31, 2000: 90%).

Cashflow

in T€	1999	2000	**2001**
Cashflow			
from operating activities	– 2,976	– 6,559	– 22,015
from investing activities	– 8,413	– 21,494	9,031
from financing activities	4,277	110,807	930
Currency translations	0	0	– 7
Net cashflow	**– 7,112**	**82,754**	**– 12,060**
Cash and cash equivalents, beginning of period	17,261	10,149	92,903
Cash and cash equivalents, end of period	10,149	92,903	80,843

Financial Position

OUTFLOW OF CASH UP BY 236%

The 236% increase in the outflow of cash for current business activities was primarily to finance net loss.

The net cash provided from investing activities in 2001 totaled 9,031 T€. In the previous year we recorded an outflow of cash totaling –21,494 T€. We achieved this 142% shift despite increased investment in tangible assets, mainly from securities purchased with the capital from the IPO. The main transactions were an investment in fixed-interest securities and the purchase of Atrix shares for 4,438 T€ as part of the agreement with Atrix Laboratories, Inc. to acquire the European marketing rights for Leuprogel™.

The inflow of cash from financing activities was markedly lower than in the previous year, declining by 99%. In the previous year, the IPO on June 30, 2000 made a key contribution to the positive cashflow from financing activities.

In the year under review there was a –12,060 T€ net reduction in cash and cash equivalents. The closing balance of cash and cash equivalents was 80,843 T€, or 75% of the balance sheet total.

The company had no financial debts on the balance-sheet day, so the balance of cash and cash equivalents corresponds to net liquidity.

MONTHLY NET CASHBURN 2,365 T€

The change in the total of cash and cash equivalents and securities shown in the balance sheet produced a net cashburn rate of 28,383 T€ for 2001, that is an average monthly rate of 2,365 T€.

The gross cashburn rate, the sum of operating costs and depreciation, in the year under review was 36,182 T€, equal to an average monthly rate of 3,015 T€. MediGene is currently using the funds available to develop its own products.

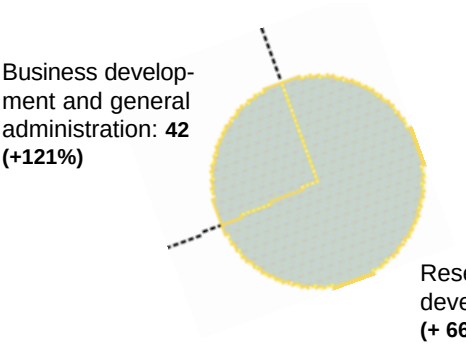
Human Resources

INCREASE IN NUMBER OF EMPLOYEES DUE TO U.S. ACQUISITION

MediGene employed 160 staff on December 31, 2001, including 123 in Martinsried and 37 at MediGene, Inc. in the U.S., or 78% more than the previous year. In 2001 we hired qualified new staff in all departments and functions and in addition gained 19 new colleagues with the acquisition of NeuroVir. Payroll costs were up 83% to 9,035 T€ from 4,937 T€.

The emphasis in personnel development, with numerous in-house and external trainings, was on communications and management. 131 T€ was spent on them. Revised target agreement systems, job evaluations, further education opportunities and our convertible bonds program support transparency, development of personal competence and a feeling of attachment to the company.

Employees by Function



Procurement

OF SUBORDINATE SIGNIFICANCE FOR R&D ACTIVITIES

The main consideration at MediGene is the procurement of services, chemicals, laboratory material and DNA chips for R&D purposes. As long as costs and prices keep within their usual parameters, as they did in 2001, how they develop plays a secondary role.

Developing the production process for a drug is, in contrast, of major importance. A cost-effective approach has to be found so as to arrange the later procurement of ingredients efficiently. MediGene is currently taking a long, hard look at the development and optimization of production processes for future drugs.

Structure of Payroll Expenditure

in T€	2000	**2001**
Wages & salaries	4,269	7,760
Social security contributions	669	1,275
– thereof pension costs	2	48
Total	**4,937**	**9,035**

COMPLEX REQUIREMENTS OF SERVICE PROVIDERS

Procurement of a wide range of services mainly occurs in outsourced areas such as the large-scale production of therapeutic agents, the execution of pharmacological and toxicological tests as well as the execution of clinical trials. The requirements of services of this kind are highly complex and require of the buyer a high degree of specialized knowledge and experience. Criteria in the choice of partners for projects of this kind are, alongside quality of service, factors such as keeping to deadlines, reliability and flexibility.

OPTIMIZED PROCUREMENT MANAGEMENT FOR MATERIALS

MediGene is not committed to individual raw materials suppliers for its R&D work. As a general rule it obtains a number of offers and places orders with the least expensive supplier, taking quality considerations into account. Our procurement is organized in such a way that we can guarantee the security needed in respect of supply bottlenecks and quality problems and can optimize purchase prices.

Procurement of laboratory material accounts for only a small percentage of total costs, which is why a detailed breakdown of expenditure by category is not included here.

Environmental and Health Protection

AT A HIGH LEVEL

MediGene feels bound by a commitment to environmental safety and protection of the environment that goes even further than statutory requirements. We do not just fulfill statutory requirements and abide by regulations; we also try to keep our laboratory equipment state-of-the-art.

With that in mind we have, at the organizational level, appointed experienced and highly qualified staff to the posts of radiation protection officer, biological safety officer, safety engineer, waste disposal officer and genetic research project manager. The safety engineer was given additional training as required by the employers' liability insurance to the chemistry guidelines.

Our laboratory systems are carefully maintained and continuously serviced and expanded. Using external service providers, MediGene ensures that process waste is carefully separated and either disposed of or reprocessed correctly and in compliance with specific requirements. To ensure safety at work for laboratory staff, regular medical checks are carried out in addition to danger analyses and trainings run by the safety engineer.

MediGene fullfills all major requirements of environmental and health protection and safety. It also has the necessary permissions and approvals. Samples taken and inspections made by various agencies have so far not led to relevant complaints, only to acknowledgement by the authorities.

Risk Report

MARKET AND INDUSTRY RISK

MediGene is subject to the typical industry and market risks that go with the development of biopharmaceutical products based on new technologies.

Experience has shown that drugs take 10 to 15 years to develop. There is a fundamental risk that individual MediGene products or all MediGene products may not be developed and marketed successfully.

Product candidates may not receive the necessary regulatory approvals. One or all of the product candidates may prove to be unsafe or ineffective. Products may prove difficult to manufacture in large quantities or impossible to market economically. Third-party property rights may stand in the way of marketing them, or third parties may market superior or less expensive products.

RISK OF UNSUCCESSFUL DRUG DEVELOPMENT

Before they can be commercialized, MediGene's product candidates must undergo the research, preclinical and clinical trials phases and the regulatory approval procedures.

Preclinical and early clinical trials can forecast neither whether a drug will be safe nor whether it will be effective on humans, and their findings are not necessarily indicative of the results of final clinical trials on patients.

Delays in recruiting patients can lead to higher costs and to delays in trials and with the market launch. Even after highly promising results in earlier stages, many biotech companies have suffered severe setbacks in advanced clinical trials.

If MediGene were not to succeed in keeping to its development plan or completing its clinical trials successfully, that could have serious detrimental consequences for its business, financial and earnings situation.

Analysts estimate the likelihood of a drug being marketed successfully at different project development stages as follows:
- 90% at approval stage
- 60-80% at clinical phase 3
- 40-60% at clinical phase 2
- 10-30% at clinical phase 1
- 0-10% at preclinical stage

RISK OF LOW DRUG SALES

Drug development is subject to strong competitive pressure. The markets that MediGene's activities target (cardiology and oncology) are so attractive that they form a focal point of research activities by most leading drug companies and many specialized biotech corporations.

Drugs under development at MediGene are intended to treat very serious diseases for which there are as yet no effective therapies. A successful drug for each of these indications would have a significant market potential. If one of our competitors were to succeed in marketing a competing product first, MediGene's development could, depending on the product's profile and marketing successes, prove less competitive or even inferior.

We pursue a portfolio strategy aimed at minimizing development and sales risks. Seven different projects based on four different technologies are in different stages of clinical development.

FINANCIAL RISKS

MediGene's existing equity capital and corporate cash flow may not be enough to cover expected investment expenditures and operating capital required in the foreseeable future. MediGene may need to raise additional funds from external sources. Its ability to raise these additional funds will depend on financial, economic and other factors on which the management for the most part has no influence. If the need arises, MediGene may not always have sufficient funds at its disposal on acceptable terms. In that case it might have to reduce expenditure on R&D, production or marketing. That could have seriously detrimental consequences for its business, financial and earnings position and future prospects.

MediGene has so far always succeeded in raising enough capital for the further financing of its corporate activities. To ensure that the prospects of continuing to do so are good, MediGene pursues intense investor relations.

LEGAL RISKS

MediGene's success will also depend on its ability to achieve the highest possible degree of patent protection for its technologies and products, to protect trade secrets, to protect itself effectively against breaches of its legal rights and to enforce its rights without violating the rights of third parties.

To protect our legal rights to technologies and products we make use of additional non-disclosure agreements and contractual limitations on use with cooperation partners, employees, advisors and other contractual partners.

Since 1998, MediGene has been in legal dispute with the Loyola University of Chicago, its advisors Sigma Technologies, Inc., a private person and MedImmune, Inc. The subject of litigation by MediGene, the Loyola University and MedImmune is the ownership of patents and the rights to patent applications for CVLP technology and associated claims for damages.

The court proceedings are still in progress. If MediGene were to lose wholly or in part in its legal dispute with the Loyola University, MediGene would risk not being able to market products based on CVLP technology at all or only on payment of license fees. In view of the legal

dispute in progress, Schering AG is entitled to terminate the existing license and cooperation agreement.

Schering is aware of this legal dispute, yet in 2001 modified the existing license and cooperation agreement so that possible repayment commitments to Schering no longer apply. If the legal dispute were not to be decided in MediGene's favor, it would otherwise have been obliged to make these repayments to Schering.

EXCHANGE RATE RISKS

MediGene runs a subsidiary in San Diego, USA, that is funded by MediGene AG. The cost of activities in the U.S. will increase in the event of a further loss in value of the euro against the U.S. dollar. If the exchange rate were to deteriorate further, MediGene might carry out some clinical trials in Europe rather than in the U.S.

In 2003 MediGene plans to start marketing Leuprogel™. It imports Leuprogel™ from the U.S. The cost of buying the product will increase if the U.S. dollar-euro exchange rate deteriorates further. The drug is to be sold by MediGene in the European market with revenues mainly in euro.

OTHER RISKS

For discussion of further potential risks we refer to our 2000 IPO prospectus and to the prospectus drawn up for our shareholders in connection with the NeuroVir transaction. Both can be viewed on our website at www.medigene.com.

OVERALL RISK FURTHER REDUCED BY PORTFOLIO MANAGEMENT STRATEGY

MediGene's risk situation in respect of a potential threat to its continued existence was further reduced in 2001 by the enlargement of our portfolio of drugs and technologies. We are hedging the high risk of a single drug failing in clinical development by means of a portfolio of drugs at various stages of development that are based on different technologies.

The risk of a threat to MediGene's survival arising from excessive debt or insolvency is slight. The management succeeded in 2000 in ensuring finance for the current development projects by means of a successful IPO. If it were to launch further activities, additional rounds of financing would be needed.

COMPREHENSIVE RISK MANAGEMENT SYSTEM TO ENHANCE SHAREHOLDER VALUE

Principles, Administration and Controlling
Gearing our corporate strategy to maximizing shareholder value necessitates a continuous monitoring and improvement of our decision-making mechanisms. Entrepreneurial success means running risks and handling them responsibly.

MediGene's management has implemented accordingly a comprehensive risk management system that adapts flexibly to new situations and is constantly being improved.

Organizational safety measures have been put into place by separating functions. Actions or business transactions that involve a risk are never undertaken by one employee only. As a matter of principle committees are in charge of arriving at and making decisions. Work instructions and sequences ensure that work steps are carried out uniformly. Electronic data processing risks are limited by access restrictions and regulations governing system development and maintenance. Forms, worksheets and laboratory records serve the purpose of ensuring total data capture and documentation.

MediGene's controlling is in charge of target-oriented coordination of planning, information supply, management and control. Projects are put through a monthly target-performance comparison to highlight divergences that are regularly discussed with project managers and the board.

Internal audits in finance and administration support risk management by means of systematic, targeted, recognized procedures to evaluate and improve the efficacy of risk management, supervision, control and processes relating to corporate governance.

Portfolio Management and Evaluation
MediGene's project portfolio is actively managed and regularly evaluated. Management includes drawing up development plans for individual projects that are agreed by a development committee, with the meeting of project targets being monitored regularly by the board.

Regular evaluation of individual projects and their opportunities and risk mainly involves the technical risk, including considerations of the patent position, of the competition's scientific hypotheses, of clinical development, approval conditions, process development and strategic fit in relation to the portfolio as a whole. As a result a feasibility study is drawn up and an economic evaluation is undertaken. This is the basis on which the decision about MediGene's overall portfolio and further strategic alignment is made.

MediGene's international scientific advisory council undertakes a critical review of our research and development activities from the technical viewpoint and offers advice on the basis of the latest findings in research and clinical application.

Special attention is paid to our patent work. We try to ensure that both our technology platforms and our products are patented as widely as possible in order to protect ourselves from possible competitors. MediGene does not depend on a single technology but has at its disposal a widely-based technology portfolio and a diversified product portfolio, and both are protected by far-reaching international patent applications and patents.

What is more, cooperation agreements with external scientific institutes, universities and other companies provide us with access to the latest technology developments.

QUALITY ASSURANCE

MediGene's quality assurance system does justice to the requirements of both drugs legislation and the Good Manufacturing Practice Guide. It ensures that in the development and manufacture of pharmaceutical products defined standards are maintained and proof can be provided at any time of which work has been undertaken in which way.

The risk management system was evaluated by the auditors as part of their rating of the overall message conveyed by the consolidated annual financial statement. An explicit review of the risk management system was not, however, undertaken.

Major Events Since the End of the Year under Review

POSITIVE PHASE 3 FINDINGS FOR POLYPHENON™E

On January 7, 2002 MediGene announced positive long-term results of the clinical phase 3 trials of Polyphenon™E. The findings confirm the drug's sustained efficacy in treating certain genital tumors. Only in 12.5% of patients successfully treated did genital warts recur within 12 weeks of treatment. MediGene holds the world-wide marketing rights for Polyphenon™E ointment. In the months ahead a second phase 3 trial is scheduled to begin, which results shall confirm the positive data received so far.

EXPERIENCED HEAD OF MARKETING HIRED

With the appointment of Dr. Inge Bliestle in January 2002, MediGene hired an experienced and highly qualified person to develop the new marketing department. The deep expertise that she has built up over 10 years in the business of launching and marketing drugs will stand MediGene in good stead in launching Leuprogel™, a drug that is already in the process of securing approval.

LEUPROGEL™ APPROVED IN THE U.S.

Atrix Laboratories, Inc., announced in January 2002 that it had been granted FDA approval in the United States for Eligard™ 7.5 mg.

MediGene holds the exclusive European marketing rights to the drug. We submitted our marketing authorization application for the Leuprogel™ one-month depot product to the German regulatory authority, the Federal Institute for Drugs and Medical Devices (BfArM), in December 2001.

The approval process for Leuprogel™ in the U.S. took only 10 months. That and the approval of the one-month depot product demonstrate the high quality of the data submitted by Atrix. These data form the basis of MediGene's marketing authorization application for Europe.

In 2001 European sales of prostate cancer drugs like Leuprogel™ totaled over 500 million €. MediGene plans to apply for approval of the three-month depot product in the first half of 2002. Launch of the one-month and three-month products is scheduled for 2003.

Outlook & Forecast

EXPECTED OVERALL ECONOMIC SITUATION AND INDUSTRIAL TRENDS

We are working on the assumption that the first signs of an improvement in the international economy that have been observed in Europe and the United States will gain further momentum in 2002.

»Big Pharma« was already prepared last year to selectively invest large sums in promising products in the late stages of clinical development in order to fill the frequent gaps in its own product pipeline. This means that companies with products of this kind should be well positioned and able to conclude significant cooperation and license agreements on attractive terms in 2002 and 2003.

The established pharmaceuticals industry faces a major challenge in the decade ahead. Experts estimate that patents for therapeutic products worth U.S.D. 91 billion will expire, with not enough drugs in advanced stages of clinical development to maintain past growth rates and enterprise appraisals.

FURTHER EXPANSION

Enlargement of the Portfolio
An important strategic objective of MediGene AG is to enlarge further its wide-ranging technology portfolio and diversified product portfolio to boost its chances of establishing a successful market presence. Its own platform technologies, especially in the cardiology segment, are to be extended and new clinical development projects are to be started.

In addition, on the basis of existing development activities, so-called backup substances (chemically related compounds) are to be tested. They offer an extended patent protection for a family of active compounds based on the product Etomoxir or might be suitable for use with other disease areas too.

That is why we will be extending further our activities in the active ingredient search and optimization as well as in preclinical development areas. MediGene will finance these activities itself while at the same time considering whether strategic cooperations that make economic sense with Big Pharma can be entered into.

Polyphenon™ E is to embark on its final clinical trials this year, while Etomoxir is to enter into phase 3 trials in 2003. For this purpose we are planning to hire further experienced employees with drug development expertise.

MediGene plans in 2002 to further enlarge U.S. activities with a view to gaining critical mass.

Setting up a Marketing Division to Market Products
In preparation for the marketing of our own drugs we started to set up a marketing division.

Currently, MediGene is drawing up marketing plans for Leuprogel™. Our target for 2002 is to conclude the agreements for co-commercialization and to launch pre-marketing activities. Development of sales will depend to a decisive extent on the partners that have still to be chosen and on the marketing and sales team that will be set up for the product launch.

R&D ACTIVITIES LEAD TO HIGHER LOSSES IN 2002

MediGene plans to generate first revenues in 2003 from selling Leuprogel™. Analysts estimate maximum sales expectations (3 to 5 years after market launch) of 50 € to 100 million p.a. In this market segment European sales in 2000 totaled roughly 500 million €. The target is to already break even in the product-related profit and loss statement in the third year after product launch.

R&D expenditures will continue to increase in 2002, determining the operating result. In comparison with last year we expect losses to increase to about –30 million € (+/– 5 million €) for the currently planned activities.

A European marketing authorization for three-month depot Leuprogel™ too is to be applied for in 2002. For the one-month depot product we expect approval to be granted in the first half of 2003. At the same time a four-month depot product is undergoing phase 3 trials conducted by Atrix.

For Polyphenon™E the final work on the second phase 3 trials is planned. Currently, the study design and the number of patients, which will be included, are being discussed with the European and German authorities. Depending on the final study design and the results obtained we expect market introduction to take place at the end of 2003 up to the beginning of 2005.

Recruiting of patients for the phase 2 trials of Etomoxir is to be completed in the first half-year, with initial findings expected by the end of 2002.

Results of the phase 1b/2 trials for G207 are expected to be available in 2003 and of the phase 1/2 trials of NV1020 during the second half of this year.

The tumor vaccine for the treatment of cervical cancer and its precursors is currently in phase 1/2 of clinical development that is being conducted jointly with our partner Schering. Results of these trials should be available by the end of the year.

R&D PROJECTS PLANNED STATUS AS OF DEC., 2002

HPV Indications	
Polyphenon™E	Second phase 3 study in progress
CVLP Vaccine	First phase 1/2 study results available
Oncology	
Leuprogel™	One-Month depot product in approval process Three-Month depot product in approval process
G207	Phase 1b/2 study in progress
NV1020	First phase 1 study results available
rAAV Vaccine	Phase 1/2 study in progress
Cardiology	
Etomoxir	First phase 2 study results available
Preclinic	Project underway
ITD	Active ingredient development based on validated hits

The tumor vaccine for treating malignant melanoma is currently in phase 1/2 of clinical development that is being conducted jointly with our partner Aventis. Results of these trials should be available in 2003.

MediGene plans to extend preclinical activities in 2002 so as to be able to launch a steady flow of products onto the market in the future. The focus will be on pharmacology/toxicology, and especially in the further development of hits arising from the ITD platform as well as on the continued development of backup substances of Etomoxir (chemically related compounds).

MediGene has entrusted Evotec OAI with active ingredient screening for one of our validated targets in the cardiology segment. The result of screening, the so-called hit, is expected to be available in the first half. It will then be developed further by MediGene on its own or in cooperation with a partner. Chemical expertise will be the main requirement here. We plan to partly build up chemical expertise in-house and partly buy it in.

Planned R&D Costs 2002-2004

HPV-Indications:	ca. 40 million €
Oncology:	ca. 65 million €
Cardiology:	ca. 85 million €

R&D for Drugs to Remain Focal Point of Investments

In 2002 further investment in plant and equipment is planned, mainly for the cardiology laboratories. Much of it will be handled via leasing agreements. As this investment will, in relation to total expenditure, be of only subordinate significance, it will not be discussed in detail here. The largest cost block will continue to be expenditure on research and development for the product candidates.

MORE HIRINGS PLANNED

MediGene plans to hire about 40 new employees in 2002, with the emphasis on R&D and marketing. In addition, we will be enlarging the management by appointing a CFO.

FUTURE PROCUREMENT

In 2002 no fundamental changes are planned in procurement.

FUTURE CORPORATE LEGAL STRUCTURE AND ORGANIZATION/ADMINISTRATION

No changes in the group's legal structure are planned. Organization will be expanded to include marketing.

FUTURE ENVIRONMENTAL PROTECTION MEASURES

MediGene has already, as described above, put all relevant measures in place and practices environmental protection well beyond the statutory requirements. No fundamental changes are planned in the future.

»RESIDUAL DIVIDEND DISTRIBUTION POLICY« PLANNED

MediGene will pursue a policy of residual dividend distribution. In the future, dividends are always to be paid when internal financial resources cannot be reinvested in such a way as to earn at least the risk-equivalent yield that shareholders could expect to earn in the capital market. Those funds are accordingly to be distributed as dividends that, given the number of product developments and known profitability criteria, cannot be put to use in the company in the interest of shareholders. This means that any dividend MediGene distributes in the future will not constitute a pointer to the company's earnings potential.

In the medium term MediGene will probably continue to make losses and to invest funds raised by issuing shares in the development of potential drugs, thereby being unable to pay a divided for some time.

INDEPENDENT AUDITOR`S REPORT

We have audited the accompanying consolidated balance sheet of MediGene AG and its subsidiary as of December 31, 2001 and the related consolidated statement of income, statement of changes in equity and cash flows as well as notes for the years then ended. These consolidated financial statements prepared in accordance with United States Generally Accepted Accounting Principles are the responsibility of company´s Board of Managing Directors.

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit of the consolidated financial statements in accordance with German auditing regulations for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used and significant estimates made by the Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that our audit provides a reasonable basis for our opinion. In our opinion, based on our audit the consolidated financial statements referred to above present fairly, in all material respect, the net assets and financial position of MediGene AG as of December 31, 2001 and of its result of operations and its cash flow for the year then ended in conformity with United States Generally Accepted Accounting Principles.

Our audit, which according to German auditing regulations also extends to the group management report prepared by the Board of Managing Directors for the business year from January 1 to December 31, 2001 has not led to any reservations. In our opinion, on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development.

In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1 to December 31, 2001 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German accounting law.

Munich, March 2002

McMahon
Auditor

Windecker
Auditor

PricewaterhouseCoopers GmbH
Auditors

CONSOLIDATED INCOME STATEMENTS

of MediGene AG for the periods from January 1 to December 31, 2001 and 2000

in T€		Notes No.		2000		**2001**
1.	**Total other operating income**	(16)		**6,354**		**7,493**
2.	Selling expenses	(17)	–	540	–	921
3.	General and administrative expenses	(18)	–	1,988	–	4,815
4.	Research and development expenses		–	13,774	–	27,672
5.	Amortization of goodwill			0	–	1,845
6.	Depreciation		–	394	–	928
7.	**Operating loss before write–off IPR&D**		**–**	**10,341**	**–**	**28,689**
8.	Write-off IPR&D	(21)		0	–	86,543
9.	**Operating loss**		**–**	**10,341**	**–**	**115,232**
10.	Interest income and expenditures	(22)		1,153		3,958
11.	Disposal of investments			0		400
12.	Foreign currency exchange gains / losses		–	75		384
13.	**Result before income tax**		**–**	**9,264**	**–**	**110,490**
14.	Tax			0		0
15.	**Net loss**		**–**	**9,264**	**–**	**110,490**
Per share data in €:						
Basic and diluted net loss			–	1.10	–	10.04
Weighted average number of shares outstanding				8,417,423		11,003,245

The number of shares used in calculating the diluted net loss per share is the same as calculating the basic net loss per share since conversion of common stock equivalents would have an anti-dilutive effect. The number of potentially dilutive shares related to options and convertible debt that could dilute basic earnings per share in the future was 502,426 in 2000 and 564,817 in 2001.

US-GAAP
The accompanying notes are an integral part of the consolidated financial statements.
Totals may vary due to rounding

CONSOLIDATED BALANCE SHEET

of MediGene AG as of December 31, 2001 and December 31, 2000

ASSETS

in T€	Notes No.	2000	**2001**
A. Current assets			
I. Cash and cash equivalents	(25)	92,903	80,843
II. Short-term investments / marketable securities	(26)	22,323	6,000
III. Accounts receivable	(27)	2,070	334
IV. Accounts receivable due from related parties		2	0
V. Inventories	(28)	409	575
VI. Prepaid expenses and other current assets	(30)	1,672	1,151
Total current assets		**119,379**	**88,903**
B. Fixed assets			
I. Property, plant & equipment	(24)	2,070	4,217
II. Intangible assets	(24)	0	209
Total fixed assets		**2,070**	**4,426**
C. Goodwill		**0**	**9,226**
D. Long-term assets			
I. Investments	(26)	3,117	5,464
II. Loans	(29)	3,224	221
III. Other assets		0	143
Total long-term assets		**6,341**	**5,828**
Total assets		**127,790**	**108,383**

LIABILITIES AND SHAREHOLDERS' EQUITY

in T€	Notes No.	2000	**2001**
A. Current liabilities	(31)		
I. Current portion of capital lease obligation		420	443
II. Short-term debt and current portion of long-term debt		0	25
III. Trade accounts payable		1,825	2,500
IV. Accrued expenses	(32)	844	2,007
V. Deferred income	(33)	3,339	0
VI. Other current liabilities		1,207	600
Total current liabilities		**7,635**	**5,575**
B. Long-term liabilities	(31)		
I. Long-term debt less current portion		837	1,896
II. Capital lease obligation less current portion		459	442
III. Pension accrual	(32)	30	30
IV. Other long-term liabilities		36	34
Total long-term liabilities		**1,362**	**2,402**
C. Shareholders' equity	(34)		
I. Share capital		10,107	11,199
Number of shares issued and outstanding			
December 31, 2000: 10,106,722			
December 31, 2001: 11,198,637			
II. Additional paid-in capital		128,331	217,995
III. Accumulated deficit		– 19,522	– 130,012
IV. Accumulated other comprehensive income	(34)	– 123	1,224
Total shareholders' equity		**118,793**	**100,406**
Total liabilities and shareholders' equity		**127,790**	**108,383**

US-GAAP
The accompanying notes are an integral part of the consolidated financial statements.
Totals may vary due to rounding

CONSOLIDATED CASH FLOW STATEMENTS*

of MediGene AG for the Periods from January 1 to December 31, 2001 and 2000

in T€	2000	**2001**
Cash flow from operating activities		
Net loss	– 9,264	– 110,490
Adjustments to reconcile net loss to cash used in operating activities:		
Write-off IPR&D	0	86,543
APB 25 expense on new options/bonds	212	254
Profit from sale of MediGenomix	0	– 400
Write-off of premium on purchase of Atrix shares	0	740
Depreciation	394	2,774
Realized holding losses on securities	79	80
Changes in:		
Inventories	– 243	– 166
Other assets and prepaid expenses	– 1,888	3,731
Trade accounts payable	752	49
Accruals / final payments silent partner	– 678	– 1,182
Other liabilities and deferred income	4,077	– 3,947
Net cash from operating activities	**– 6,559**	**– 22,015**
Cash flow from investing activities		
Purchases of property, plant & equipment	– 749	– 2,175
Sales of property, plant & equipment	32	22
Net cash investment in NeuroVir Therapeutics, Inc.	– 6,341	– 1,145
Purchase of Atrix shares	0	– 4,438
Sale of MediGenomix	0	400
Purchase of securities	– 19,977	– 77,644
Disposals of securities	5,541	94,011
Net cash from investing activities	**– 21,494**	**9,031**
Cash flow from financing activities		
Proceeds from capital increase	114,671	0
Proceeds from stock options	432	307
Repayments of / proceeds from silent partnerships/bonds	– 4,931	0
Proceeds from loans	838	1,083
Principal payments under finance lease obligations	– 203	– 460
Net cash from financing activities	**110,808**	**930**
Currency translation	0	– 7
Increase / decrease in cash and cash equivalents	**82,754**	**– 12,060**
Cash and cash equivalents at beginning of period	10,149	92,903
Cash and cash equivalents at end of period	**92,903**	**80,843**

CONSOLIDATED CHANGES IN SHAREHOLDERS' EQUITY

of MediGene AG for the Periods from January 1 to December 31, 2001 and 2000

	Shares	Share capital	Capital reserves	Accumulated losses	Other comprehensive income	**Total shareholders-equity'**
	Number	T€	T€	T€	T€	**T€**
Balance January 1, 2000	**6,728,124**	**6,728**	**13,069**	**– 10,258**	**– 179**	**9,360**
Net loss				– 9,264		– 9,264
Other comprehensive income					56	56
Comprehensive income						**– 9,208**
Stock options exercised	100,465	101	193			294
Convertible loan exercised	285,105	285	3,046			3,331
APB No. 25 expenses on new options/bonds			212			212
IPO expenses			–10,760			–10,760
Common stock issued	2,993,028	2,993	122,571			125,564
Balance December 31, 2000	**10,106,722**	**10,107**	**128,331**	**– 19,522**	**– 123**	**118,793**
Net loss				–110,490		– 110,490
Other comprehensive income					1,889	1,889
Currency translation adjustments					– 542	– 542
Comprehensive income						**– 109,143**
Stock options exercised	95,284	95	212			307
APB No. 25 expenses on new options/bonds			254			254
Common stock issued	996,631	997	89,198			90,195
Balance December 31, 2001	**11,198,637**	**11,199**	**217,995**	**– 130,012**	**1,224**	**100,406**

US-GAAP
The accompanying notes are an integral part of the consolidated financial statements.
Totals may vary due to rounding.

*** Supplementary schedule of non-cash financing activities:**

In 2001, a total of 996,631 were issued to the value of 90,195 T€, for the acquisition of NeuroVir Therapeutics, Inc. Capital lease obligations of 466 T€ incurred in 2001. When the company entered into leases for new equipment.

CONSOLIDATED CHANGES IN FIXED ASSETS

of MediGene AG for the Periods from January 1 to December 31, 2001

	Sales value							
in T€	January 1, 2001	Currency translation adjustments	Addition/ disposal at first consolidation	Addition	Disposal	Addition from market valuation	Take over leasing	**December 31, 2001**
Fixed assets	**3,320**	**11**	**1,431**	**2,641**	**66**	**0**		**7,337**
Property, plant & equipment*	3,320	– 6	1,056	2,641	66			6,945
Intangible assets	0	17	376	0	0	0		393
Goodwill	**0**	**0**	**0**	**11,071**	**0**	**0**		**11,071**
Long-term assets	**3,117**	**0**	**– 3,117**	**3,698**	**0**	**1,766**		**5,464**
Investments	3,117	0	– 3,117	3,698	0	1,766		5,464
Total	**6,436**	**11**	**– 1,685**	**17,410**	**66**	**1,766**		**23,872**
*thereof leasing:	1,238			466			– 238	1,465

US-GAAP
The accompanying notes are an integral part of the consolidated financial statements.
Totals may vary due to rounding.

Depreciation							Book value	
January 1, 2001	Currency translation adjustments	Addition/ disposal at first consolidation	Addition	Disposal	Take over leasing	**December 31, 2001**	December 31, 2001	January 1, 2001
1,249	**13**	**764**	**928**	**44**	**0**	**2,911**	4,426	2,070
1,249	10	628	884	44	0	2,727	4,217	2,070
0	3	136	45	0	0	184	209	0
0	**0**	**0**	**1,845**	**0**	**0**	**1,845**	**9,226**	**0**
0	**0**	**0**	**0**	**0**	**0**	**0**	**5,464**	**3,117**
0	0	0	0	0	0	0	5,464	3,117
1,249	**13**	**764**	**2,774**	**44**	**0**	**4,757**	**19,117**	**5,187**
241			277		– 147	371	1,094	996

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A) DESCRIPTION OF BUSINESS ACTIVITY

»MediGene Aktiengesellschaft für molekularbiologische Kardiologie und Onkologie« was founded in 1994 in Martinsried, near Munich, Germany, as a privately-held corporation with a share capital of 26 T€. In 1996 it was converted into an Aktiengesellschaft, or stock corporation, with its head office at Lochhamer Strasse 11 in 82152 Martinsried, Germany. The company is registered in the trade register at the Munich Amtsgericht (county court) under the number HRB 115761.

MediGene AG has a wholly-owned subsidiary, MediGene, Inc., located in San Diego, USA.

The company's business purpose is to research and develop novel drugs to treat cardiac and tumor diseases by means of molecular biological techniques and market them.

B) STATUTORY ACCOUNTING REQUIREMENTS

These consolidated annual financial statements were drawn up in accordance with U.S. Generally Accepted Accounting Principles (GAAP). The company has taken advantage of the provisions of §292a of the German Commercial Code (HGB) for these consolidated annual financial statements. For this reason, this report was amplified to include statements that exempt the company from the German statutory requirement to present consolidated financial statements and a consolidated management report. The companies that form part of the reporting entity have used uniform accounting methods and methods of valuation.

Individual financial statements for MediGene AG, in contrast, were drawn up in accordance with the accounting principles laid down in the German Commercial Code (HGB). For the purposes of this report they are to be regarded as no more than information in addition to the consolidated financial statements. Individual financial statements for MediGene AG will be drawn up and filed in accordance with the German HGB.

The currency used in the 2001 financial statements is the euro (€) or EUR '000 (T€). Conversion from the previous reporting currency, the Deutsche Mark (DM), at the fixed exchange rate of 1 € = 1.95583 DM as laid down on January 1, 1999, took place on June 30, 2000. MediGene AG's functional currency in 2001 was still the DM and MediGene, Inc.'s was the U.S. dollar (USD).

In drawing up consolidated annual financial statements on the basis of the Generally Accepted Accounting Principles the Executive Board must make assessments and assumptions that affect the earnings, expenditures, assets, liabilities and contingent liabilities listed in the financial statements at the time the accounts were drawn up. The actual figures may differ from the estimates, which were made to the best of our knowledge and belief.

C) CHANGES IN ACCOUNTING, VALUATION AND RECORDING PRINCIPLES

From the second quarter 2001 on, segment reporting was amended to include alongside the segments a so-called intersegment that carries over to the overall figures. In comparison with the figures in the financial statements for fiscal 2000, the definition of the market segments human papilloma virus indications, oncology and cardiology is unchanged, while intersegment combines the figures for administration, business development, clinical development management and research and development management. In the new presentation these four are not allocated to the respective market segments. The sum total of market segments and intersegment is the overall figures as listed in the balance sheet and the profit and loss statement.

The consolidation of MediGene, Inc. and new reporting rules by the German Stock Exchange made it necessary to undertake changes in the balance sheet format used in the annual financial statements for 2001. These adjustments affected also the cash flow statements. To ensure comparability, figures for previous years were converted into the same reporting format. The changes are outlined as follows:

Other current assets were transferred from receivables to prepaid expenses. Accounts receivable due from related parties are a new item.

Current Assets

in T€		Consolidated Dec. 31,1999 Previous	Change	**Consolidated Dec. 31,1999 New**	Consolidated Dec. 31, 2000 Previous	Change	**Consolidated Dec. 31, 2000 New**
I.	Cash and cash equivalents	10,149		10,149	92,903		92,903
II.	Short-term investments/ marketable securities	7,910		7,910	22,323		22,323
III.	Accounts receivable	1,839	– 1,834	6	3,621	– 1,551	2,070
IV.	Accounts receivable due from related parties	0	2	2	0	2	2
V.	Inventories	165		165	409		409
VI.	Prepaid expenses and other current assets	18	1,832	1,850	123	1,549	1,672
Total current assets		**20,081**	**0**	**20,081**	**119,379**	**0**	**119,379**

Current liabilities

in T€		Consolidated Dec. 31,1999 Previous	Change	**Consolidated Dec. 31,1999 New**	Consolidated Dec. 31, 2000 Previous	Change	**Consolidated Dec. 31, 2000 New**
I.	Current portion of capital lease obligation	225		225	420		420
II.	Short-term debt and current portion of long-term debt	2,045		2,045	0		0
III.	Trade accounts payable	1,075		1,075	1,825		1,825
IV.	Accrued expenses	2,034		2,034	844		844
V.	Deferred income		19	19		3,339	3,339
VI.	Other current liabilities	544	–19	525	4,546	– 3,339	1,207
Total current liabilities		**5,923**	**0**	**5,923**	**7,635**	**0**	**7,635**

Deferred income were taken out of the current liabilities and listed separately.

In the cash flow statement, APB 25 (Expenditure on Stock Options and Convertible Bonds for Employees) was newly included in the cash flow from operating activities. In the 2000 cash flow statement, this expenditure, totaling 212 T€, was included under proceeds from capital increase, i. e. cash flow from financing activities.

D) CONSOLIDATION

In addition to MediGene AG, Martinsried, only the wholly-owned subsidiary MediGene, Inc. (previously NeuroVir Therapeutics, Inc.), San Diego, was included in the reporting entity from March 1, 2001. After the sale of the 30% holding in MediGenomix GmbH in May 2001, MediGene AG at Dec. 31, 2001 held no further stakes in related companies, associated undertakings or joint ventures.

All intra-group payables and receivables, income, expenditure were eliminated. Since MediGene, Inc. is MediGene AG's only subsidiary, no mention of other equity holdings is made in the consolidated financial statements.

In May 2001, MediGene sold its 30% holding in MediGenomix GmbH to Eurofins Scientific GmbH. The holding was included in the balance sheet on the basis of the equity accounting method. At the time of sale, its book value was zero.

MediGene acquired 750,000 shares in NeuroVir Therapeutics, Inc. for a purchase price of USD 3 million on June 2, 2000. This holding amounted to ca. 10% of NeuroVir equity issued and in circulation. On November 9, 2000 MediGene announced the merger agreement with NeuroVir by the terms of which MediGene was to acquire all outstanding NeuroVir equity, options and convertible bonds in exchange for shares.

The acquisition of NeuroVir was completed on Jan. 12, 2001. The capital increase required for the acquisition of NeuroVir was entered in the trade register on February 23, 2001. The shares were included in the existing stock exchange listing on March 13, 2001. At the same time MediGene exchanged 996,631 of its registered shares for all other outstanding NeuroVir equity, options and certificates held or taken up before the acquisition. Ten percent of these shares are held in trust as a security against breach of contract.

Acquisition costs were as follows:

	in T€
Purchase of 750,000 NeuroVir shares in May 2000	3,117
Issue of 996,631 MediGene shares at 90.50 € each	90,195
Fees and other expenditures incurred in the acquisition	1,448
Total purchase price	**94,760**

The MediGene shares issued in the swap were valued at € 90.50 per share – the market price on November 9, 2000, the day on which the deal was announced.

The total purchase price was listed under various headings in the balance sheet on the basis of the purchase method as follows:

	in T€
IPR&D	86,543
Goodwill company	10,584
Goodwill work force	487
Net assets of NeuroVir Therapeutics, Inc.	– 2,854
Total	**94,760**

The two research and development projects acquired – G207 and NV1020 – were in full entered separately under expenditure as nonrecurring »In Process Research & Development (IPR&D)« write off.

The amount by which the purchase price exceeded the value of NeuroVir's tangible and intangible assets less liabilities is seen as goodwill (here listed as the sum total of goodwill company and goodwill work force). This goodwill was written off against the 2001 operating result from March to Dec. Since Jan. 2002 the new provisions of SFAS No. 141 and 142 have been applied (cf Note (15) »New Accounting Principles«). The amortization was based on an estimated useful life of five years. Current research and development expenses were entered in the profit and loss statement for 2001 as expenditure. The size and organization of NeuroVir and its existing project management system required no accruals for restructuring measures.

Consolidated company	MediGene, Inc.
Registered office	San Diego, USA
Shareholding in %	100
Equity capital at Dec. 31, 2001 T€	1,419
Net loss for the year 2001 T€	– 10,826

The initial consolidation of MediGene, Inc. had the following main effects on the consolidated financial statements for the year ending Dec. 31, 2001:

in T€	2001
Cash and cash equivalents	547
Accounts receivables	37
Inventories	37
Prepaid expenses and other current assets	118
Property, plant & equipment	1,634
Intangible assets	209
Long-term assets/loans	221
Long-term assets/other assets	113
Trade accounts payable	457
Accrued expenses	1,041
Selling expenses	158
General and administrative expenses	1,840
Research and development expenses	7,056
Depreciation	297
Interest expenditures	176
Foreign currency exchange losses	9

Pro Forma-Information

With the consolidation of MediGene, Inc. from March 1, 2001 the consolidated financial statements for 2001 is not comparable with the statement for 2000. The following unaudited pro forma information as per APB 16 (US-GAAP) is based on the assumption that MediGene, Inc. was acquired on January 1, 2000:

Pro Forma, in T€	2000	**2001**
Sales revenues	0	0
Other operating income	6,354	7,493
Result before income tax[1]	– 16,895	– 26,162
Net loss for the year[1] [2]	– 16,895	– 26,162
Net loss per share[3]	– 1.79	– 2.34

(1) For fiscal 2000 and for January and February 2001, goodwill amortization totaling 185 T€ per month were made. They are based on the goodwill actually capitalized in 2001.

(2) The nonrecurring IPR&D (in progress research and development) write off totaling 86,543 T€ made in first quarter 2001 related to the acquisition was reversed for the pro forma, as were costs incurred by NeuroVir Therapeutics, Inc. in 2000 for the share swap totaling 6,953 T€.

(3) Net loss per share (pro forma) was calculated on the following basis:

- The 996,631 new MediGene shares issued in 2001 by way of a capital increase for the acquisition of NeuroVir Therapeutics, Inc. were treated as if they were issued on January 1, 2000.
- Shares issued as part of the June 2000 IPO were treated for pro forma purposes as if they were issued throughout 2000, thereby establishing a comparability between 2001 and 2000 that makes the impact of the acquisition clearer.
- As the conversion of common stock equivalent would counteract the dilution effect, options and convertible bonds are not taken into account.

E) PRINCIPLES OF ACCOUNTING AND VALUATION

(1) Foreign Currency Translation

SFAS No. 52 on Foreign Currency Translation was applied. In consolidating the U.S. subsidiary, which prepares its accounts in USD, balance sheet items are converted at the rate of exchange on the balance sheet date, with the sole exception of the shareholders' equity, which is converted at its historic exchange rate. Income and expenses are for consolidation purposes translated at the average monthly rate of exchange into the reporting currency.

Consolidation is undertaken monthly. Any resulting conversion differences are included under shareholders' equity as »other comprehensive income«. In fiscal 2001 they totaled –542 T€.

Receivables and liabilities that are not denominated in the functional currency are converted at the rate of exchange on the balance sheet date. Items bought and sold in foreign currencies are converted at the rate of exchange on the day of the transaction. Foreign currency exchange gains and losses are listed as such in the profit and loss statement.

The following exchange rates applied in 2001:

USD-€ exchange rates in 2001

Transaction day rates		Monthly average rates	
31. Jan 01	0.9306	January	0.9386
28. Feb 01	0.9244	February	0.9217
31. Mar 01	0.8815	March	0.9102
30. Apr 01	0.8870	April	0.8918
31. May 01	0.8556	May	0.8761
30. Jun. 01	0.8480	June	0.8534
31. Jul. 01	0.8763	July	0.8603
31. Aug. 01	0.9170	August	0.8998
30. Sep. 01	0.9170	September	0.9114
31. Oct. 01	0.9051	October	0.9052
30. Nov. 01	0.8897	November	0.8881
31. Dec. 01	0.8823	December	0.8932

The extent to which individual end-of-year items are affected by exchange rate changes is not felt to be substantial.

(2) Presentation Of Income In The Profit And Loss Statement

Funding from research cooperation agreements is booked as income when contractually agreed targets or milestones are reached.

Contractually agreed payments and fixed-date payments that do not depend on a future performance are recognized as income when the cooperation partner confirms that the contractual obligations have been fulfilled.

Payments for research and development are recognized with the work progresses. (One-off) upfront payments made by a pharmaceutical partner when a new contract is signed will from 2001 as per US-GAAP be spread over the entire estimated contract period. Cash flow will increase by the full amount received in payment, but as other operating income it may only be recognized pro rata over the product development period or contract duration. In 2001 no new contracts were signed to which this provision would apply.

Payments made for unsucessfull research work will not be refunded. Grants received are booked as other operating income.

(3) Research And Development Expenses
Research and development expenses include all costs generated by research and development activities. They include personnel expenses, consultants' fees, cost of materials, services, laboratory costs, legal costs and other allocated costs such as rent and electricity. They are expensed when incurred.

(4) Cash And Cash Equivalents
Cash and cash equivalents comprise cash in hand and at banks, plus checks. They are entered into the accounts at their par value.

(5) Financial Investments And Securities Held As Current Assets
There are no major holdings on which a decisive influence can be exercised. All other holdings and securities held as fixed and current assets are classified as available for sale (SFAS No. 115). Securities held as fixed and current assets can be sold at any time and are valued at their market price. Resulting unrealized gain or loss is shown in »other comprehensive income« a component of the shareholders' equity and are not permanent in character. In the case of a permanent value impairment, amortization would be implemented. Deferred taxes were not taken into account.

(6) Inventories
Inventories are booked at cost on the FIFO principle. All inventories are raw materials used in research and development. They are mainly chemicals, raw materials and DNA chips used in the laboratory. No inventories were self-manufactured so far. All inventories are used very rapidly (< 1 month), so the cost of purchase as a rule corresponds to current market prices.

(7) Receivables
Receivables are listed at par value. Neither specific bad debt nor lump-sum allowances were necessary.

(8) Intangible Assets
Intangible assets acquired are booked at cost and depreciated regularly by the straight-line method. No extraordinary writedowns resulting from a permanent reduction in value were necessary. No own costs were capitalized. Intangible assets reported and their valuation are based on US-GAAP and may differ from German tax amortization allowances. Depreciation of intangible assets is based on the following useful life resulting from the estimated working life:

Software	3-4 years
Goodwill	5 years

From January 2002, new US-GAAP provisions will apply to the amortization of goodwill. For further details see »New Accounting Principles«. Details of changes in fixed assets are to be found in the fixed asset statement.

(9) Property, Plant And Equipment
Property, plant and equipment are valued at cost and depreciated at regular intervals using the straight-line method. Extraordinary depreciations due to a permanent decrease in value were not necessary. We have not yet manufactured any assets ourselves. Tangible assets reported and their valuation are based on US-GAAP and may differ from German tax amortization allowances.

Property, plant and equipment are depreciated over their expected useful life, leasehold improvements over the term of the contract which ever is shorter.

Leasehold improvements	8-10 Years
Technical equipment and laboratory fixtures and fittings	3-5 Years

Significant renewals and improvements are capitalized insofar as they increase the value of plant and equipment. All other expenditures on maintenance and repairs are booked as expenses at the time when they occur. When property, plant and equipment are sold, their purchase costs and cumulative depreciations are eliminated from the accounts in the year of sale. The resulting profit or loss is listed under »Other earnings and expenditure«, thereby affecting net income. Details of changes in fixed assets are to be found in the fixed asset statement.

(10) Leasing
The company has concluded long-term lease agreements for certain operating and office fixtures and fittings. These agreements fulfill at least one of the SFAS No. 13 requirements for classification as capital lease and are capitalized together with a corresponding leasing obligation. Assets are capitalized at cost of purchase and written off using the straight-line method over their estimated useful life like other tangible assets in the company.

In addition, the company rents offices and laboratories, office equipment and vehicles that count as operating leases. Operating lease payments are expenses when incurred.

Leasing agreements for office furniture are for 60 months, agreements for office and business equipment are for 36 months. The main lessors are Hanseatische Leasing and Comdisco. The company's role is strictly that of a lessee.

(11) Liabilities
Liabilities for goods and services are valued at their redemption cost. Financial liabilities consist mainly of a research and development loan and capital lease liabilities.

(12) Accruals
Pension and other accruals were made.

In 1998 the company granted a one-off payment of 26 T€ to Dr. Heinrich as a pension commitment under a salary conversion. This liability is valued at its present value.

Other accruals consist mainly of goods and services received that have yet to be billed. They are made at a level that takes all recognizable risks suitably and adequately into account. For these accruals no major estimate parameters such as price increases or calculations on a variable or full cost basis were necessary. No accounting options were taken up.

(13) Comprehensive Income
SFAS No. 130 on »Reporting Comprehensive Income« requires the disclosure and description of total earnings. In the other comprehensive income, unrealized profits or losses from the market valuation of securities are booked as a change in equity capital without effect on the operating result. Differences resulting from foreign currency translation are also listed in the other comprehensive income.

(14) Important Differences Between HGB And US-GAAP

These consolidated financial statements were drawn up on the basis of U.S. Generally Accepted Accounting Principles (GAAP). US-GAAP differs on various points from the principles listed in the German Commercial Code (HGB). These differences in accounting principles between US-GAAP and HGB that are relevant for the consolidated financial statements are as follows:

IPO Costs

US-GAAP requires costs incurred in going public to be listed as reductions in capital reserves. HGB lists them as extraordinary expenses.

Intangible Assets

US-GAAP requires intangible assets acquired for cash, including goodwill, to be capitalized. By the terms of the German Commercial Code the capitalization of goodwill is optional.

Tangible Assets

US-GAAP requires regular depreciations to reflect wear and tear. Newly acquired property, plant and equipment with an estimated useful life that extends beyond the fiscal year is depreciated over its estimated useful life. US-GAAP strictly rules out special depreciations that are purely fiscal in motivation. Companies that file HGB-based accounts frequently tend to be guided by tax guidelines on amortization in writing off fixed assets. They can opt for either straight-line or declining-balance tax amortization.

Leasing

US-GAAP makes a fundamental distinction between two forms of leasing transactions: capital and operating. Operating lease corresponds to a rental agreement-type relationship that the lessor must include in his balance sheet. The lessee must capitalize the agreement if, in contrast, it constitutes capital lease.

The German Commercial Code does not specify how to handle leasing transactions in the balance sheet. The economic approach would indicate that the leased item should be included in the accounts of the »economic owner« at the given time. That could be either the lessee or the lessor. A large number of criteria needs to be considered to clarify once and for all who should include it in his balance sheet. In practice, leasing agreements are as a rule drawn up in such a way that the leased items are considered, with tax advantages in mind, to be allocated to the lessor.

Deferred Tax

US-GAAP requires mandatory capitalization of deferred tax assets regardless where it originates and mandatory accrual of deferred tax liabilities. Deferred tax assets are checked to see how likely they are to be realized and, if necessary, adjusted downward accordingly. German principles do not allow deferred tax assets based on net losses carried forward to be shown in the accounts. Only deferred tax assets that result from differences in valuation between commercial law and fiscal law regulations may be shown, while deferred tax liabilities have to be accrued.

Foreign Currency Translation

US-GAAP requires payables and receivables that are denominated in foreign currencies to be converted at the rate of exchange on the balance sheet date. Unrealized profits and losses must be taken into account in a way that affects the operating result.

Assets and debts must according to German commercial law principles be valued individually on the balance sheet date. Valuation must be conservative, with profits only being shown if they were realized on the closing date.

For consolidation, both US-GAAP and HGB specify the functional currency method.

Revenue Recognition

Revenue recognition is subject to much stricter criteria according to US-GAAP than when HGB is applied. The main consideration is the time when revenues are entered. That can lead to differences within an accounting period.

Unrealized Increases and Decreases in Value of Securities

US-GAAP allows unrealized fluctuations in the value of securities that are available for sale to be entered as »other comprehensive income« under shareholders' equity. This applies only to temporary fluctuations. Permanent fluctuations must be posted to the profit and loss statement.

Germany's HGB requires the strict lowest-value principle to be applied to securities held as current assets. Unrealized losses in value must accordingly be shown in the profit and loss statement in a way that affects the operating result, whereas profits may only be shown once they are realized.

Calculating The Purchase Price Of Acquisitions

US-GAAP requires the purchase price of an acquisition to be shown at the market value of shares issued in payment. The market value is the price on the date when the handover terms of a stock swap acquisition were published.

German principles require the price to be set after the date on which the commitment can no longer be reversed.

Stock Options and Convertible Bonds

US-GAAP Accounting Principles Board No. 25 specifies that stock options and convertible bonds issued to employees and members of the Executive and Supervisory Boards are to be shown under »expenses« as the difference between current market value and total conversion price spread over the vesting period.

Following HGB guidelines, options are not reported on issuance. They are only reported in capital reserves when they have been converted.

Content And Presentation Of Annual Financial Statements

US-GAAP presents balance sheet items into »short-term« or »current« and »long-term« according to how easily they can be converted into cash. The profit and loss statement is drawn up on the basis of the cost-of-sales accounting format and distinguishes between operating and non-operating expenses.

HGB does not classify balance sheet items in this way. The profit and loss statement must be based on either the total-cost or the cost-of-sales accounting format. In the latter case, additional details must be specified.

The differences in balance sheet accounting between US-GAAP and HGB for consolidated MediGene financial statements have not been quantified because the only subsidiary consolidated, MediGene, Inc., reports solely on the basis of US-GAAP. HGB-based reporting by the U.S. corporation, which has formed part of the reporting entity since March 2001, and an audit of the report does not make economic sense for MediGene.

(15) New Accounting Principles

At the end of June 2001 the Financial Accounting Standards Board (FASB) issued SFAS No. 141 (Business Combinations) and 142 (Goodwill and Other Intangible Assets). Goodwill must accordingly no longer be amortized according to a schedule. Its value must be reviewed annually and, if need be, a non-scheduled amortization must be undertaken.

This regulation regarding goodwill is to be applied and an annual impairment test conducted from 2002 on.

Implementation of this change will mean that scheduled amortization on acquired goodwill totaling 2,214 T€ p. a. will cease to apply. That calculation was based on a useful life of 5 years.

SFAS No. 143 (Accounting for Asset Retirement Obligations) and 144 (Accounting for the Impairment or Disposal of Long-Lived Assets) were also issued in 2001. The management anticipates no fundamental changes for MediGene from these new standards.

F) NOTES ON THE PROFIT AND LOSS STATEMENT

(16) Other Operating Income

in T€	2000	**2001**	Change
R & D funding from partnerships	2,264	4,932	118%
Milestone and license fee payments from partnerships	1,048	2,250	115%
Legal fee funding from partnerships	2,250	0	
Grants	769	278	– 64%
Other	23	33	42%
Total	**6,354**	**7,493**	**18%**

(17) Selling Expenses

No sales activities are in progress yet, so selling expenses include only business development expenditures, including personnel expenses, consultants' fees, market studies, cost of materials and other services.

(18) General And Administrative Expenses

This item mainly includes personnel expenses, expenditure in connection with capital market communications and Press work, plus administration-relevant and general services. Other operating expenses are not included. Expenditure on rent, rent overheads, telecommunications services, security and the like is apportioned to the individual segments.

Fixed assets are apportioned directly to the individual segments so that depreciations and profits or losses from the disposal of an asset can be booked directly. The same applies to transfer to accruals. Gains or losses from foreign currency exchange are itemized separately.

(19) Personnel Expenses

Personnel expenses as follows are posted to expense items in the profit and loss statement:

Personnel Expenses

in T€	2000	**2001**	Change
Wages and salaries	4,269	7,760	82%
Social insurance	669	1,275	91%
of which for pension	2	48	
Total	**4,937**	**9,035**	**83%**

Personnel Expenses By Segment

in T€	2000	**2001**	Change
HPV indications	1,024	1,065	4%
Oncology	875	3,085	252%
Cardiology	835	1,071	28%
Intersegment	2,202	3,814	73%
Total	**4,937**	**9,035**	**83%**

Employees By Function

	Dec. 31, 2000	**Dec. 31, 2001**	Change
R&D	71	118	66%
Business development/ General administration	19	42	121%
Total	**90**	**160**	**78%**

The rise in personnel expenses is due to the increase in the average number of staff employed during the years and to the first-time inclusion of MediGene, Inc. in the consolidation. On average, 130 staff were employed in 2001, 32 of them at MediGene, Inc. That is an increase of 69% over the previous year, when the average number employed was 77. All employees are salaried staff.

The members of the Supervisory Board and the Executive Board are listed on page 98.

Executive Board members' emoluments in the last financial year totaled 424 T€ (2000: 346 T€). Payments to the Supervisory Board in 2001 totaled 52 T€ (2000: 40 T€). For details of stock options held by members of the Supervisory Board and the Executive Board and by employees, see Note (34), »Shareholders' Equity«. No advances were made to Executive Board or Supervisory Board members. A loan was granted to a senior executive of MediGene, Inc. Details on this can be found under point (29), »loans«.

(20) Cost Of Materials

The following material costs expense items have been booked in the profit and loss statement:

in T€	2000	**2001**	Change
Cost of raw, auxiliary and operating materials	672	1,271	89%
Cost of services bought	3,424	9,474	177%
Total	**4,096**	**10,745**	**162%**

The cost of raw, auxiliary and operating materials comprises mainly laboratory materials and chemicals.

Services bought comprise mainly the conduct of clinical studies, approval for marketing authorization, production services and pre-clinical development services.

(21) Write-Off IPR&D

The costs totaling 86,543 T€ were incurred in connection with the acquisition of NeuroVir Therapeutics, Inc. For further details, please see Note D), »Consolidation«.

(22) Financial Results

in T€	2000	**2001**
Interest income	3,364	4,039
Interest expenditures	– 2,211	– 81
Disposal of investments	0	400
Foreign currency exchange gains/losses	– 75	384
Total	**1,078**	**4,742**

(23) Income Tax

Deferred tax assets are as follows:

in T€	MediGene AG Germany 2000	MediGene AG **2001**	MediGene Inc. USA 2001
Deferred tax asset on net losses	11,540	16,189	10,560
Deferred tax asset/ liability on temporary timing differences	60	110	.– 182
Valuation allowance	– 11,600	– 16,299	– 10,378
Deferred tax assets, net	**0**	**0**	**0**

Since the company's medium-term budget does not anticipate any profit, deferred tax assets were written down to zero. The present anticipation may change, depending on the future earnings situation, necessitating lesser valuation allowance. Under German tax law, losses can be carried forward for an unlimited period.

Under U.S. tax law, there is a time-limit on losses carried forward. MediGene Inc.'s losses carried forward therefore expire between 2002 and 2021 depending on when they were made.

G) NOTES ON EARNINGS PER SHARE

The following table shows calculation of the actual and diluted net loss per share:

in T€	2000	**2001**
Operating loss before Write-Off IPR&D	– 9,264	**– 23,947**
Write-off IPR&D	0	**– 86,543**
Net loss	– 9,264	**– 110,490**
Weighted average number of shares	8,417,423	**11,003,245**
Net loss per share	– 1.10	**– 10.04**
Net loss per share adjusted for Write-Off IPR&D		**– 2.18**

The fully diluted net loss was equivalent to the actual loss as the conversion of common stock equivalents would have an anti-dilutive effect.

H) NOTES ON THE BALANCE SHEET

ASSETS

(24) Intangible and tangible fixed assets
A detailed breakdown of the composition and development of intangible and tangible fixed assets can be found in the fixed asset statement on page 74 and 75.

(25) Cash

in T€	2000	**2001**	Change
Cash and cash equivalents < 3 months	92,903	80,843	– 13%
Marketable securities < 3 months	22,323	6,000	– 73%
Total	**115,226**	**86,843**	**– 25%**

(26) Marketable Securities And Financial Assets
The marketable securities and financial assets were made up of the following values as at December 31, 2001:

in T€	Acquisition costs	**Market value on Dec. 31, 2001**	Unrealized profits/losses as at Dec. 31, 2001
Marketable securities Eur Sigfin Djestx	6,000	6,000	0
Financial assets Atrix Laboratories Inc.*	3,698	5,464	1,766

* purchase price excluding premium

The current asset portfolio changed as follows:

in T€	2000	**2001**
Shares*	3,091	0
Fixed-interest securities:		
Federal bonds 4,50%	884	0
Repsol Floater 6,00%	1,998	0
Aegon Wi 6,875%	3,500	0
Links Sigfin Dax	5,150	0
Eur Sigfin Dow Jones	0	6,000
BCP Fin. Euribor +1,75%	7,700	0
Total	**22,323**	**6,000**

* Kbc Belgische Kreditbank
Depfa Deutsche Pfandbriefe

Total proceeds from sales of securities totaled 94.011 T€ in 2001 (previous: 5.541 T€) and include sales of securities bought in the course of the year. The costs of securities sales were apportioned to the individual items. Realized losses from sales of securities totaled 80 T€ in 2001 (previous: 79 T€). On December 31, 2001 non-realized value losses totaled 0 T€ because assets are covered by a 100% capital guarantee.

For a detailed breakdown and movements in financial assets, please refer to the fixed asset statement on page 74 and 75.

(27) Receivables
As in 2000, no allowance of doubtful accounts receivables were made in the year under review, 2001. All receivables are payable within 3 months.

(28) Inventories
Inventories held are laboratory materials, chemicals and DNA chips. Due to the large number of articles and the fact that they are inventorized on paper it was not economically feasible to prepare a quantitative breakdown of these stock items by the time the financial statements were drawn up. Those information are of no importance to the statement of the company's financial and business situation. No allowance of stocks was necessary. Stocks have been accounted for by the FIFO method.

(29) Loans
In December 2001 a MediGene, Inc. senior executive was granted a USD 200,000 loan, with interest payable at 2.5% p. a. Annual capital repayments of USD 5,000 are due from December 2002. Capital and interest are due in full in December 2006.

(30) Prepaid Expenses And Other Current Assets

in T€		**2000**	**2** Change
Other assets			
With a term < 1 year			
Tax refund claims	39	86	119%
VAT refund claims	0	323	–
Grants	397	83	– 79%
Cooperation agreements	254	85	– 66%
Interest	824	109	– 87%
Advances	0	78	–
Other	35	0	–
Total	**1,549**	**765**	**– 51%**

Prepaid Expenses

With a term < 1 year			
Insurance services	55	40	– 27%
Use of software and data	42	185	341%
Research services	10	75	633%
Clinical trial	0	26	–
Maintenance	4	10	137%
Other	11	50	347%
Total	**123**	**387**	**215%**
	1,672	**1,151**	**– 31%**

LIABILITIES AND SHAREHOLDERS' EQUITY

(31) Liabilities

in T€	2000	**2001**	Change T€	Change
Current liabilities				
Current portion of capital lease obligation	420	443	23	5%
Trade accounts payable	1,825	2,500	675	37%
Debt (due to banks)	0	25	25	
Accruals	844	2,008	1,164	138%
Deferred income	3,339	0	– 3,339	– 100%
Other current liabilities	1,207	600	– 607	– 50%
	7,635	**5,575**	**– 2,060**	**– 27%**
Long-term liabilities				
Long-term debt	837	1,896	1,059	127%
Capital lease obligation less current portion	459	442	– 17	– 4%
Other liabilities	36	34	– 2	– 4%
with a term > 5 years:				
Pension accrual	30	30	0	0%
	1,362	**2,402**	**1,040**	**76%**

In 2001, deferred income set up on December 31, 2000 was reversed and recognized in other operating income. They related to a repayment obligation by MediGene to Schering and a milestone payment by Aventis. The contract with Schering was amended in September so as to cancel the obligation to possibly have to make a repayment. Project progress was such that in 2001 we were able to reverse the deferred income item relating to the Aventis milestone payment.

The reduction in other current liabilities is attributable to the change in VAT liabilities.

Research and development loan
The company in 2000 received a loan from a cooperation partner to cover the costs incurred by the company in carrying out a joint project. The company is bound to repay the loan as soon as proof of concept has been obtained for the candidate product and the partner has decided to continue the cooperation. If the partner pulls out even though the proof of concept was positive the company will not have to repay the loan. The repayment deadline had not been fixed by December 31, 2001. It is expected if so to fall in 2003. The marked increase in long-term debt is mainly attributable to this loan.

Other liabilities as of December 31, 2001 comprised the following items:

Other current liabilities

in T€	2001
Grant-related liabilities	89
Liabilities arising from cooperation agreements	197
Wage- and church-tax liabilities	175
Social insurance liabilities	137
Other	2
	600
Other long-term liabilities	
Convertible-bond liabilities	**34**

Grant-related liabilities include a possible repayment of grants received.

The liabilities arising from cooperation agreements are repayments of research and development overpayments.

Pension accruals have a term of more than five years. All other long-term liabilities are payable within five years and are not collateralized.

(32) Accruals

The accrued taxes relate to the franchise tax payable in the U.S. regardless of profit.

We have set up an accrual to cover any liability for damages to MedImmune, Inc./Loyola-University should the outcome of the legal dispute over patent in the United States go against MediGene. The level of this accrual is based on advice from our lawyers.

Accruals

in T€	Dec. 31, 2000	Used/ reversed	Set up	Dec. 31, 2001
Vacation entitlements and overtime	82	82	230	230
Bonuses	0	0	149	149
Taxes	0	0	46	46
Rent payments	14	14	150	150
Cost of annual financial statement and audit	41	41	117	117
Employers' liability insurance	26	26	35	35
Damages	0	0	179	179
License payments	0	0	52	52
Other annual financial statement costs	0	0	80	80
Clinical trials and approval	0	0	302	302
Production and pre-clinical trials	64	64	431	431
Other	151	151	165	165
Legal costs	410	410	72	72
Leasing	57	57	0	0
	844	**844**	**2,007**	**2,007**

In addition to other accruals we have a pension reserve. The company in 1998 in the framework of a salary conversion agreed to pay Dr. Heinrich a pension commitment in the form of a one-time payment of 26 T€. This commitment has been valued at its cash value of 30 T€.

The calculation was based on the tabular guidelines set by Dr. Klaus Heubeck with an interest rate of 6.00%.

(33) Deferred Income
On the balance-sheet date December 31, 2001 no deferred income existed.

(34) Shareholders' Equity
The increase in capital for the shares to purchase NeuroVir Therapeutics, Inc. was recorded in the trade register on February 23, 2001. These shares were included in the existing listing on March 13, 2001. The capital increase gave rise to 996,631 new registered shares at a price of 90.50 € per share. Share capital was thereby increased by 996 T€ and capital reserves by 89,198 T€.

On December 31, 2000 the total number of shares outstanding was 10,106,722. In 2001 staff, consultants and members of the Supervisory Board exercised 95,284 options. 996,631 new shares were created on February 23, 2001 in a capital increase in connection

»Directors' holdings« and notes on shares held by members of the Supervisory Board, the Management Board and employees in accordance with §160 Para. 1 No. 2 and 5 AktG

Members	Function	Shares	Options	Convertible bonds
Prof. Dr. Ernst-Ludwig Winnacker	Supervisory Board Chairman, Co-founder	292,676	38,700	1,600
Dr. Helmut Schühsler	Supervisory Board Deputy Chairman	25,940	6,880	1,200
Prof. Dr. Dr. Ernst-Günter Afting	Supervisory Board member	11,217	15,370	800
Dr. Pol Bamelis	Supervisory Board member	330	0	400
Prof. Dr. Michael Hallek	Supervisory Board member, Co-founder	284,738	5,590	800
Michael Tarnow	Supervisory Board member	6,337	0	20,400
Total Supervisory Board		**621,238**	**66,540**	**25,200**
Dr. Peter Heinrich	Chief Executive Officer, Co-founder	499,500	36,636	26,000
Dr. Johanna Holldack	Chief Operating Officer	0	43,000	25,500
Total Executive Board		**499,500**	**79,636**	**51,500**
Shareholders' equity	**MediGene AG**	**0**	**0**	**0**

(As at Dec. 31, 2001)

with the acquisition of NeuroVir Therapeutics, Inc. on December 31, 2001 the total number of shares outstanding was 11,198,637 and the number of shares on a »total dilution« basis was 11,763,454.

The changes in shareholders' equity are listed in the consolidated statement of changes in shareholders' equity on page 73.

Other comprehensive income:

in T€	2001
As at Dec. 31, 2000	– 123
Sale of securities	123
Non-realized profit from Atrix shares	1,766
Adjustment for currency translation	– 542
Position at Dec. 31, 2001	**1,224**

(35) Stock Option Plan

The annual general meetings of 1997 and 1999 agreed to stock option plans. Options were granted accordingly to employees and to members of the Executive Board, the Supervisory Board and the Scientific Advisory Board. The number of options is restricted to 593,056. The number of options offered depends partly on the individual's length of service and their position in the company.

The options must be exercised within a term of ten years from the date of issue. After a waiting period of six months (for 1997 and 1998 options) or two years (options granted in 1999 and 2000), they can be exercised at any time after granting of option rights. Holders of options are entitled to make use of their option rights and during the term to buy new company stocks against payment of an exercise price per share.

The following options were issued and exercised in the years 1997 to 2001:

in T€	Employees, Executive Board, Supervisory Board	Scientific Advisory Board	**Total**
Options issued in 1997	256,452	24,080	280,532
Options issued in 1998	51,600	17,200	68,800
Options issued in 1999	139,879	22,360	162,239
Options issued in 2000	78,690	0	78,690
Options issued in 2001	0	0	0
Sub Total	**526,621**	**63,640**	**590,261**
Options converted into shares in 2000	100,465	0	100,465
of which under the 1997 stock option plan	100,465	0	0
of which under the 1999 stock option plan		0	0
Options converted into shares in 2001	92,704	2,580	95,284
of which under the 1997 stock option plan	85,046	2,580	
of which under the 1999 stock option plan	7,658	0	0
Sub Total	**232,987**	**61,060**	**394,512**
Withdrawn options rendered invalid	731	0	731
Total remaining convertible options as at Dec. 31, 2001	**232,256**	**61,060**	**393,781**

The exercise price for options issued in 1997 and 1998 is 2.93 €. For options issued in 1999 and 2000 it is 6.48 €.

The company applies Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees. No personnel expenses were recognized for options issued to employees and members of the Executive Board and the Supervisory Board up to December 31, 1999. In 2001, expenses totaling (in 2000: 138 T€) were recognized, based on a fair value of 10 T€ per option. The value of options issued to members of the Scientific Advisory Board is expensed at the date of granting the option.

Had the company prepared its accounts in accordance with SFAS No. 123, Accounting for Stock Based Compensation, according to which the company would have had to include the value of the options in the balance-sheet at their fair value on the date of issue, the company's annual result would have been as follows:

Net loss

			2000	**2001**
As reported	T€	–	9,264	**–110,490**
Pro forma according to SFAS No. 123	T€	–	9,372	**–110,529**
Pro forma net loss per share	€	–	1.11	**– 10.05**

The value of the options was worked out using the Black Scholes Option Pricing Method and after taking into account the 1:43 share split undertaken in 1999 is 0.27 € for the options issued in 1997 and 1998 and 0.99 € for those issued in 1999 to 2001.

For the purposes of calculation, the following assumptions were made:

Risk-free interest rate	5.65%
Expected volatility	0.01
Expected dividend	0.0

(36) Convertible Bonds

At the extraordinary shareholders' meeting in May 2000 a new convertible bond plan was agreed on. Under this, staff, scientific advisors and members of the Executive Board and the Supervisory Board were granted convertible bonds in exchange for the par value of 1 €. The number of convertible bonds to be granted to staff and to Executive Board members was limited to 670,000. The number of convertible bonds to be granted to members of the Supervisory Board was limited to 3,000. The number of convertible bonds offered depends among other things on how long an individual had worked for the company and the post they hold.

The convertible bonds expire five years after the time they are granted. They can be exercised at staggered intervals during this period after a vesting period of two to four years. Holders of convertible bonds are paid interest of 2.5% per annum of the nominal sum paid.

At the ordinary shareholders' meeting of May 2001 the resolution passed in 2000 was amended. Convertible bonds issued from June 2001 can be converted at staggered intervals during the redemption term after a vesting period of one to three years. It was agreed to restrict the issue of the remaining 659,830 convertible bonds as follows: 150,000 to members of the Executive Board and to the management organs of allied companies, 100,000 of these to the Executive Board; 439,839 to staff and 70,000 to advisors. The conversion price per convertible bond will be in line with the fair price at time of issuance + 20%.

At this ordinary shareholders' meeting in May 2001 the option to grant a further 3,000 convertible bonds to Supervisory Board members was agreed on.

In accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, the difference between the higher fair value (in July 2000 64.90 €; in September 2000 106.50 €) and the total conversion price (50.40 in 2000 €) of the convertible bond was expensed over the vesting period. The total expense was 116 T€ in 2001 and 73 T€ in 2000.

	No.	Fair value	**Total conversion price**
Convertible bonds issued in 2001			
January	540	*	64.16 €
June	3,000	*	24.57 €
June/July	156,066	*	31.63 €
	159,606		

* Fair value below conversion price

Convertible bonds issued in 2000			
July	3,000	64.90 €	50.40 €
September	9,630	106.50 €	50.40 €
	12,630		

A total of 1,200 convertible bonds were withdrawn from former employees and are therefore invalid. As a result, at December 31, 2001 the total number of valid convertible bonds issued was 171,036.

I) NOTES ON THE CASH FLOW STATEMENT

The cash flow statement shows the MediGene Group's payment flow broken down into operating, investing and financing activities.

The cash used in operating activities has been adjusted to take account of the one-time write-down for the NeuroVir acquisition via a stock swap and the cost of the new options and convertible bonds. Pursuant to APB No. 25 the difference between the fair value and the total conversion price of the new options and convertible bonds was expensed over the vesting period.

Payments of 1,448 T€ incurred in 2001 for fees and other expenditure in connection with the acquisition of NeuroVir Therapeutics, Inc. via a stock swap. The funds acquired along with this transaction totaled 303 T€. Both items have been included in the cash flow from investing activities. Non-cash financing activities were as follows: for the acquisition of NeuroVir Therapeutics, Inc. 996,631 shares to the value of 90,195 T€ were issued. In the year under review, capital lease obligations totaling 466 T€ were entered into for laboratory and office equipment.

Proceeds in the context of the research and development loan and for convertible bonds issued have been recorded as Proceeds from loans in the cash flow from financing activities.

The final amount of cash and cash equvalents includes cash in hand, credit at banks and checks and agrees insofar with the corresponding item in the consolidated balance-sheet. The amount shown was subject to a restraint on disposal at December 31, 2001 due to a rent guaranty of 171 T€.

J) SEGMENT REPORTING

The company is active in Germany and in the United States.

Segment reporting by region:
(Activities in the U.S. were begun on March 1, 2001. The figures do not refer to the full fiscal 2001 and no comparative prior-year figures exist)

in T€	Germany 2000	**Germany 2001**	**USA 2001**
Other operating income	6,354	**7,493**	**0**
R&D expenses	– 13,774	**– 20,616**	**– 7,056**
Depreciation[1)]	– 394	**– 2,476**	**– 297**
Operating loss	– 10,341	**– 19,343**	**– 9,345**
Investments[2)]	1,707	**1,150**	**1,491**
Cash flow (from operating activities)	– 6,559	**– 12,958**	**– 8,651**
Assets	127,790	**105,466**	**2,917**
Liabilities	8,997	**6,480**	**1,498**
Average number of employees	77	**98**	**32**

(1) Goodwill amortization has been included in the figures for Germany
(2) Investments include capital lease investments

The company is active in the HPV indications, oncology and cardiology market segments. In these sectors, different categories of drugs are developed using various technologies, as follows:

HPV indications: CVLP-Technology,
Drugs:

- Polyphenon™ E for the treatment of genital warts
- CVLP vaccine – vaccine against cervical carcinoma and precursor stages

Oncology: rAAV technology, HSV technology,
Drugs:

- Leuprogel™ for the treatment of advanced prostate cancer
- rAAV vaccine - vaccine against malignant melanoma
- G207 for the treatment of brain tumors
- NV1020 for the treatment of liver metastases

Cardiology: ITD technology platform,
Drugs:

- Etomoxir for the treatment of congestive heart-failure

Segment reporting by market segment

in T€	HPV indications	Oncology	Cardiology	Intersegment[2)]	Total
2001					
Other operating income	4,797	2,394	229	73	7,493
R&D expenses	– 7,254	–11,944	– 5,976	– 2,498	–27,672
Business development and general administration	0	0	0	– 5,736	– 5,736
Depreciation	– 250	– 364	– 160	– 1,999	– 2,774
Operating loss before Write-off IPR&D	– 2,708	– 9,914	– 5,907	–10,160	–28,689
Investments[1)]	319	1,603	381	338	2,641
Average number of employees	20	45	21	45	130
2000					
Other operating income	4,287	1,770	274	23	6,354
R&D expenditure	– 7,847	– 2,149	– 2,561	– 1,217	–13,774
Business development and general administration	0	0	0	– 2,528	– 2,528
Depreciation	– 168	– 88	– 71	– 67	– 394
Operating loss before Write-off IPR&D	– 3,728	– 466	– 2,359	– 3,788	–10,341
Investments[1)]	617	221	751	117	1,707
Average number of employees	19	17	16	25	77

[1)] Investments include capital lease investments
[2)] See C) Changes In Accounting, Valuation And Recording Principles

Intersegment income in 2001 consists mainly of state subsidies from the Federal Ministry For Education and Research (BMBF) for a competence development project (55 T€).

There are no regular or planned charges for services between the market segments and regions. For this reason no disclosures can be made about internal prices. Internal earnings in 2001 totaled 9 T€. This was eliminated during consolidation.

K) OTHER NOTES

(37) Cooperation Agreements

Aventis

MediGene AG in February 2000 entered into a license and cooperation agreement with Aventis Pharma Deutschland GmbH. The contract subject is the joint development of a rAAV tumor vaccine against malignant melanoma. Under this agreement, Aventis will have an exclusive license to develop and market the vaccine in 37 countries (including the EU, the United States and Japan).

The total value of this agreement is up to 37 million €, in addition to license fees for sales revenues. MediGene owns the marketing rights for most East European countries and a number of countries in South America and in the Middle East and East Asia. The two companies will conduct all studies jointly, up to and including clinical phase 1/2. Aventis will manufacture the vaccine, carry out the phase 3 study and register the vaccine. Clinical trial phase 1/2 was begun in June 2001.

Schering

MediGene AG in September 1999 signed a license and cooperation agreement with Schering AG for clinical development and marketing of the vaccine developed by MediGene for treatment of cervical carcinoma and precursor stages caused by human papilloma viruses. Schering will receive an exclusive global license including the right to award sub-licenses. Without taking account of the agreed license fees, MediGene will receive up to 55 million € upfront and milestone payments. The clinical phase 1/2 study will be conducted by both parties to the contract, while Schering will be responsible for the further clinical studies and marketing. At the end of the year under review the project was in the phase 1 of clinical development.

Evotec OAI

The aim of the cooperation agreement made in March 2001 with Evotec OAI is a systematic search for new kinds of active ingredients to treat certain cardiac diseases. By using EVOscreen® technology and Evotec OAI substance libraries, MediGene plans to enhance the efficiency of this search for active ingredients. MediGene will retain all rights to the targets and has also secured all rights to the therapeutic substances discovered, so they can be further developed by MediGene alone or in cooperation with pharmaceutical partners.

Atrix Laboratories

Under the agreement with Atrix Laboratories, Inc. for the acquisition of the European marketing rights to Leuprogel™, a medicine for treating prostate cancer, MediGene has acquired Atrix shares to the value of 3,698 T€.

(38) Legal Disputes

The company places great emphasis on protecting its inventions immediately by registering patents, obtaining the required third-party licenses to develop its own products and defending its own patent rights. In 1998 it filed an action in the United States District Court for the Northern District of Illinois against the Loyola University of Chicago and MedImmune, Inc. Among other things, this concerns the holding of patents and rights to register patents for CVLP technology, a method of making virus-like particles which the company uses in developing therapeutics for HPV-induced tumors.

The company is claiming damages from Loyola University of Chicago for various breaches of contract and damages from MedImmune, Inc. In a further court case the company is asserting claims for damages against Loyola's consultants, Sigma Technologies, Inc., and other defendants for various breaches of contract and for inducing the Loyola University of Chicago to breach its contracts with the company.

If no positive solution can be achieved to the legal dispute between the company and the Loyola University of Chicago and MedImmune, Inc., Schering AG would have the right to terminate its contract with the company so that the continuation of this agreement beyond 2001 is uncertain. In that case the company would have been obliged to repay to Schering AG up to 60% of payments received so far. These repayments would have had to have been made within a period of 24 months. Accruals have been set up accordingly.

In September 2001, the joint licensing and cooperation agreement with Schering was amended, deleting the repayment obligation. As a result, in the last fiscal MediGene was able to recognize other operating income totaling 2.3 million € by reversing accruals accordingly.

Over the past fiscal year there were no other court cases or arbitration proceedings that had or could have a substantial impact on the company's economic situation and at present no proceedings of this kind are imminent.

(39) Contingencies And Other Financial Obligations

At the balance-sheet date a rent guaranty totaling 171 T€ existed.

No commitments were assumed on behalf of board members.

Future minimum payments for capitalized leased items and future annual minimum leasing installments for operating leases are as follows:

in T€	Capital lease	Operating lease
2002	500	1,462
2003	340	1,135
2004	130	797
2005	0	465
after	0	0
Minimum leasing obligations	971	3,859
Less interest amount	– 85	
Total capital lease obligations	885	
Short-term obligations	443	
Long-term obligations	442	

(40) Total Unused/Open Credit Lines

No open credit lines existed at Dec. 31, 2001 in addition to the cash shown under footnote (25).

(41) Financial Instruments

SFAS No. 107, Disclosures about Fair Value of Financial Instruments, requires the disclosure of fair values of financial instruments regardless of whether they are reflected in the balance sheet. Book values of financial instruments such as cash, receivables, liabilities and accruals correspond approximately to their fair values due to their short-term maturities.

MediGene's financial instruments currently consist of an investment in securities totaling 6,000 T€. A 100% capital guarantee exists for this investment. The term is less than three months. For this reason, no further disclosures about financial instruments are applicable.

(42) Members Of The Executive Board And The Supervisory Board

Executive Board

Dr. Peter Heinrich
Chief Executive Officer, Co-founder

Dr. Johanna Holldack
Chief Operating Officer

Supervisory Board

Prof. Dr. Ernst-Ludwig Winnacker
Chairman, Co-founder
President German Research Association

Dr. Helmut Schühsler
Deputy Chairman, Managing Partner, TVM

Prof. Dr. Ernst-Günter Afting
Chief Executive Officer, GSF

Prof. Dr. Michael Hallek
Co-founder
Assistant Director, Department of Internal Medicine, Großhadern Hospital of the University of Munich

Dr. Pol Bamelis (from May 23, 2001)
former Management Board member of Bayer AG, Germany

Michael Tarnow (from May 23, 2001)
Managing Director of Huntington Venture, LLC, Boston, U.S.

Prof. Dr. Norbert Riedel (until May 23, 2001, from May 23, 2001 substitute member)
President of the Recombinant Strategic Business Unit of Baxter Healthcare Corporation Hyland Immuno, U.S.

Dr. Ansbert Geadicke (until May 23, 2001)
Managing Partner, MPM, USA

The members of the Executive Board and the Supervisory Board also hold the following seats on Supervisory Boards or comparable bodies:

Dr. Peter Heinrich
- Wilex AG, Germany

Prof. Dr. Ernst-Ludwig Winnacker
- Bayer AG, Germany
- EleGene AG, Germany
- Therascope AG, Germany

Dr. Helmut Schühsler
- Ascenion GmbH, Germany
- Atomika Instruments GmbH, Germany
- Garching Innovation GmbH, Germany
- GPC Biotech AG, Germany
- Ingenium Pharmaceuticals AG, Germany
- Intercell Biomedical Research and Development AG, Austria
- Morphochem AG, Germany
- Peptor Ltd., Israel
- Sequenom Inc., U.S.
- VitaResc Biotech AG, Germany

Prof. Dr. Ernst-Günter Afting
- BioM AG, Germany
- Enanta Pharmaceuticals, Inc., U.S.
- Intercell Biomedical Research and Development AG, Austria
- Sequenom Inc., U.S.
- VitaResc Biotech AG, Germany
- Xerion Pharmaceuticals GmbH, Germany

Dr. Pol Bamelis
- Agfa-Gevaert AG, Germany
- Agfa-Gevaert N.V., Belgium
- Crop Design N.V., Belgium
- Evotec OAI AG, Germany
- N.V. Bekaert S.A., Belgium
- Oleon N.V., Belgium
- TFG Venture Capital AG & Co. KGaA, Germany

Prof. Dr. Michael Hallek
- Sireen AG, Germany

Michael Tarnow
- AXCAN Pharma Inc., Canada
- Caprion Pharmaceuticals, Inc., Canada
- Ferghana Partners, UK
- Paladin Labs, Inc., Canada
- Nanopharma Inc., USA
- Tao Biosciences, USA
- Xenon Genetics, Inc., Canada

PROFIT AND LOSS STATEMENT IN ACCORDANCE WITH HGB

MediGene AG individual financial statements for the periods from January 1 to December 31, 2001 and 2000

in T€		2000	2001
1.	Revenues	0	0
2.	Other operating income	6,452	8,334
		6,452	**8,334**
3.	Cost of materials		
	a) Cost of raw, auxiliary and operating materials	649	772
	b) Cost of services bought	3,424	7,077
		4,072	**7,849**
4.	**Gross profit**	**2,380**	**485**
5.	Personnel expenses		
	a) Wages and salaries	4,089	4,965
	b) Social insurance contributions and expenditures for retirements benefits thereof for retirements benefits: 2 T€ (2000: 17 T€)	669	838
		4,758	**5,803**
6.	a) Depreciation of intangible and tangible assets	316	
6.	b) Allowance on current assets	112	0
		429	**430**
7.	Other operating expenses	7,325	10,742
8.	**Operating loss**	**– 10,131**	**– 16,490**
9.	Income/Expenses from financial investments	13	0
10.	Other interest and related costs thereof from related parties: 286 T€ (2000: 0 T€)	3,364	4,211
11.	Interest and related expenses	– 2,164	– 1
12.	**Result from ordinary operations**	**– 8,919**	**– 12,280**
13.	Extraordinary Expenses	10,979	0
14.	Other taxes	0	0
15.	**Net loss for the year**	**– 19,897**	**– 12,280**
16.	Net loss brought forward	– 10,506	– 30,403
17.	**Accumulated deficit**	**– 30,403**	**– 42,403**

Totals may vary due to rounding

BALANCE SHEET IN ACCORDANCE WITH HGB

MediGene AG individual financial statements as of December 31, 2001 and December 31, 2000

ASSETS

in T€	2000	2001
A. Fixed assets		
I. Intangible assets		
Software	34	37
II. Tangible assets		
Plant and equipment	1,007	1,334
III. Financial assets		
Investments	3,136	74,334
	4,177	**75,705**
B. Current assets		
I. Inventories		
Raw materials and supplies	409	538
II. Receivables and other assets		
1. Trade receivables thereof with a term > 1 year: 0 T€ (2000: 0 T€)	0	0
2. Receivables due from related parties thereof with a term > 1 year: 0 T€ (2000: 3,224 T€)	3,510	0
3. Other assets thereof with a term > 1 year: 30 T€ (2000: 0 T€)	3,336	1,012
	6,846	**1,012**
III. Securities		
Other securities	22,250	6,000
IV. Cash and cash equivalents	92,903	80,297
	122,407	**87,847**
C. Accrued and deferred items	**123**	**348**
	126,707	**163,900**

Totals may vary due to rounding

LIABILITIES AND SHAREHOLDERS' EQUITY

in T€	2000	2001
A. Shareholders' equity		
I. Share capital	10,107	11,199
II. Additional paid-in capital	138,879	189,819
III. Accumulated deficit	– 30,403	– 42,683
	118,583	**158,334**
B. Accruals		
1. Pension accrual	30	30
2. Other accruals	885	972
	915	**1,002**
C. Liabilities		
1. Loan thereof convertible: 171 T€ (2000: 13 T€)	13	171
2. Trade liabilities thereof with a term < 1 year: 2,043 T€ (2000: 1,826 T€)	1,826	2,043
3. Related parties liabilities thereof with a term < 1 year: 1 T€ (2000: 0 T€)	0	1
4. Other liabilities thereof with a term < 1 year: 624 T€ (2000: 1,208 T€) thereof social insurance: 137 T€ (2000: 94 T€) thereof taxes: 175 T€ (2000: 623 T€)	2,032	2,349
	3,871	**4,564**
D. Accrued and deferred items	**3,339**	**0**
	126,707	**163,900**

REPORT OF THE SUPERVISORY BOARD

In fiscal 2001 the Supervisory Board performed in full its statutory duties and the duties specified in the Articles of Incorporation. On the basis of oral and written reports by the Executive Board, the Supervisory Board maintained a continuous watching brief on the corporation's management.

The Executive Board presented regular reports on the corporation's economic status and business development position, corporate planning, major business transactions and fundamental matters of corporate policy, including strategic and organizational alignment, cost and earnings trends, investment measures and financial planning.

The Supervisory Board performed its duties at five meetings held on January 30th, April 11th, May 23rd, September 4th, December 3rd and in numerous telephone discussions. Other employees were called in to report on specific issues. The Supervisory Board also advised the Executive Board in one-on-one discussions. As a rule the Supervisory Board chairman telephoned with the Executive Board chairman at least once a week, keeping himself and his fellow-members of the Supervisory Board informed about major business transactions and offering advice and support.

Focal Points Discussed

All business submitted to the Supervisory Board for which either statutory approval or approval by the terms of the Articles of Incorporation were required was discussed in detail with the Executive Board. In addition to current business development, the Supervisory Board paid special attention to the corporation's strategic development. Intensive discussions were held especially on the research and development project portfolio, their stages of development and prospects of realization.

Alongside existing projects, the focus of discussion was on the integration of the new U.S. location, the acquisition of European marketing rights for prostate cancer drug Leuprogel, the initiation and conclusion of clinical trials, the strategy for the imminent marketing of the first drugs and the financial situation. The Supervisory Board also ordered a full report on the 2002 budget. After detailed deliberations the Supervisory Board approved the Executive Board's plans.

The Supervisory Board also satisfied itself that the Executive Board was performing its duties by the terms of the German Corporate Control and Transparency Act and that the risk early warning system was functioning as intended.

Members Of The Supervisory Board

So as to be in a position to argue competently and to provide competent advice on the constantly extending wide-ranging issues with which the Supervisory Board needs to concern itself, Michael Tarnow and Dr. Pol Bamelis were elected to the Supervisory Board at last year's Annual General Meeting. As a former member of the Supervisory Board of U.S. acquisition NeuroVir, Inc. Mr. Tarnow can make a major and competent contribution toward the integration process at MediGene, Inc., as well as in the area of marketing, while Dr. Bamelis, a former board member in charge of research and development at Bayer AG, is held in high regard as a competent contact on portfolio decisions.

MediGene owes a debt of gratitude to Prof. Norbert Riedel and Dr. Ansbert Gaedicke who left the Supervisory Board, for the commitment they showed and the valuable advice they gave. It enriched the company and served the Executive Board as both support and a source of ideas.

Annual Report And Consolidated Financial Statement

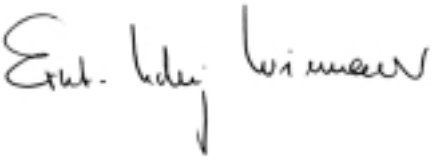
PriceWaterhouse Coopers Gesellschaft mit beschränkter Haftung Wirtschaftsprüfungsgesellschaft, Munich branch office, the auditor approved by the AGM and appointed by the Supervisory Board, has audited the annual report of MediGene AG and consolidated financial statements for fiscal 2001 as well as the management reports of MediGene AG and the group, and given them its unqualified audit certificate. The GAAP-based consolidated financial statements were accompanied by a consolidated management report and other notes as per § 292a of the German commercial code (HGB). The GAAP-based consolidated financial statement exempts the company from submitting a report based on German law.

The Supervisory Board received in time for its balance sheet meeting all balance sheet and income statements and the auditor's reports. They were discussed in full at the balance sheet meeting of the Supervisory Board held on March 8th 2002. The auditor attended the balance sheet meeting, reporting on the basic findings of the audit and answering queries.

The Supervisory Board has endorsed the auditor's findings. It has examined the consolidated financial statements and report within the remit of statutory requirements and raises no objections.

The Supervisory Board would like to thank the Executive Board and members of staff for their efforts in the year under review. Last year, as in the past, they took the company's successful development forward through their remarkably hard work.

Munich, in March 2002



Prof. Ernst-Ludwig Winnacker
Supervisory Board Chairman

KEY FIGURES

MediGene Group, US GAAP

		1998	1999	2000	**2001**	Change 00-01
Income statements						
Revenues	T€	174	0	0	0	–
Other operating income	T€	1,998	5,960	6,354	7,493	18%
Research and development expenses	T€	– 3,910	– 7,845	– 13,774	– 27,672	101%
Business development and general administration expenses	T€	– 876	– 1,439	– 2,528	– 5,736	127%
Amortization of goodwill	T€	0	0	0	– 1,845	–
Depreciation	T€	– 178	– 269	– 394	– 928	135%
Operating loss before write-off »IPR&D«	T€	– 2,791	– 3,593	– 10,341	– 28,689	177%
Result before income tax	T€	– 2,853	– 3,745	– 9,264	– 110,490	1,093%
Personnel expenses	T€	– 1,959	– 2,962	– 4,937	– 9,035	83%
Balance sheet data						
Balance sheet total	T€	18,674	21,268	127,790	108,383	– 15%
Shareholders' equity	T€	13,284	9,360	118,793	100,406	– 15%
Cash and securities	T€	17,261	18,059	115,226	86,843	– 25%
Long-term liabilities	T€	4,278	5,984	1,362	2,402	76%
Equity-to-asset ratio		71%	44%	93%	93%	0%
Cash flow						
Cash flow from operating activities	T€	– 1,990	– 2,977	– 6,559	– 22,015	236%
Cash flow from investing activities	T€	– 615	– 8,412	– 21,494	9,031	– 142%
Cash flow from financing activities	T€	17,265	4,278	110,807	930	– 99%
Cash and cash equivalents at end of period	T€	17,261	10,150	92,903	80,843	– 13%
Employees as of Dec, 31		**35**	**50**	**90**	**160**	**78%**
MediGene-Share						
Shares outstanding as of Dec. 31, 2001		6,728,124	6,728,124	10,106,722	11,198,637	11%
Weighted average number of shares		4,936,701	6,728,124	8,417,423	11,003,245	31%
Net loss per share	€	– 0.58	– 0.56	– 1.10	– 10.04	– 813%
Net loss per share adjusted for write-off IPR&D	€	– 0.58	– 0.56	– 1.10	– 2.18	– 98%
Dividend	€	0	0	0	0	–

GLOSSARY

AAV
Adeno-associated virus; a naturally occurring virus that is safe for humans

rAAV
Technology by which genetically altered AAVs can be manufactured and put to therapeutic use

rAAV-Technology
Recombinant adeno-associated virus, an AAV that has undergone genetically-engineered modifications

rAAV tumor vaccine
Vaccine manufactured using rAAV technology and used in the treatment of cancer diseases

Amplicons
Gene vectors, a combination of virus shell and DNA

Anaplastic astrocytoma
A WHO grade III brain tumor (graded from I to IV, of which IV is the most serious type)

Angina pectoris
Acute cardiac insufficiency, precursor of a heart attack

Antibody
A protein that is formed by the immune system to ward off substances that are foreign to the body

Antigen
A compound or structure that is recognized by the immune system

Arteriosclerosis
The most frequent pathological alteration in the arteries

Atrix
Atrix Laboratories, Inc., a specialized U.S. pharmaceutical corporation

Capsid
A virus shell consisting of symmetrically arranged capsomers

Capsomer
A virus shell subunit consisting of several protein molecules

Carcinoma
A malignant, cancerous tumor emanating from the epithelial tissue and tending to create metastases, or secondary tumors

Cardiology
Study of the heart and its diseases

CHF
Congestive heart failure

Chromosome
A subunit of the genome consisting of DNA and proteins

Ciphergen
Israeli biotech corporation

Compugen
Israeli biotech corporation

CPT-1
Carnitin-palmitoyl-transferase-1, a protein of the fatty acid metabolism

CVLP
Chimeric virus-like particle

CVLP tumor vaccine
Vaccine using CVLPs to trigger a therapeutic immune reaction

Cytotoxic T-cell
A specialized cell in the immune system that eliminates virus-infected cells

Dendritic cell
A kind of cell that occurs in the immune system

DNA
Desoxyribonucleic acid, a carrier of genetic data

Dysplasia
Serious tissue malformations such as precursors of tumor diseases

Enzyme
A protein that accelerates certain biological processes in cells

Etomoxir
A product candidate for the treatment of congestive heart failure

FDA
Food and Drug Administration, the U.S. drug licensing authority

G207
An oncolytic herpes simplex virus and drug candidate for the treatment of malignant brain tumors

Gene
DNA section that includes the genetic data of a specific protein

Genetic analysis
Analysis of the functions and activities of a gene

Genetic library
A comprehensive collection of genetic data

Gene vector
A virus or virus-like particle that can be used to transmit genes

Genome
Sum total of the genetic information of an organism

Genome research
Analysis of the sum total of the genetic information of an organism

Gene therapy
Introduction of therapeutic genes into the body to treat an inherited genetic defect

Glioblastoma
A WHO Grade IV classified brain tumor

Glucose oxidation
Glucose combustion process that uses oxygen and enables living cells to generate energy

Gonadotropin Releasing Hormone
Gonadotropin releasingfactor
Cf. luteinizing hormone releasing hormone

Herpes simplex viruses
Viruses that occur in, for instance, saliva, urine and feces but often do not cause infection (90% of adults have HSV antibodies)

HGB
German Commercial Code

Hormone analogs
Active ingredients that work like natural occuring hormones

Human papilloma virus (HPV)
A virus that infects humans and comes in many strains that can trigger genital warts as well as cervical cancer and its precursors

Hormone
A transmitter produced naturally in the body that controls and coordinates biochemical and physiological processes

HSV
Herpes simplex viruses

Immune system
An endogenous system, i.e. one originating in the body, for targeted defense against exogenous, i.e. foreign, substances

Immunostimulatory
Able to activate the immune system

Indication
A defined clinical picture

Indication area
Several related indications combined to make up an area

In-vitro heart
An artificial heart model

Integrated Target Definition (ITD)
A technology platform used to conduct research into diseases and to develop novel drugs

IP-Position
Intellectual property position, i. e. patents and licenses owned

LHRH
Short for luteinizing hormone releasing hormone, also known as gonadotropin releasing hormone, a hormone that controls the production of testosterone

LHRH analog
A molecule related to the natural LHRH molecule

Leuprogel™
A product candidate for the treatment of advanced prostate cancer

Malignant melanoma
Malignant skin cancer

Melanoma
Tumor that occurs in the skin

Metastasis
Secondary tumor caused by cells of the primary tumor spreading and resettling (metastasizing) throughout the body

NCE
Abbreviation for new chemical entity, a new chemical agent

NeuroVir Therapeutics, Inc.
A U.S. biotech corporation, now MediGene, Inc., a subsidiary of MediGene AG headquartered in San Diego, USA

NV1020
A product candidate for the treatment of liver metastasis originating from colon cancer

Oncology
Study of tumors and tumor-related diseases

Oncolysis
Tumor dissolution, (Greek: oncos, tumor, and lyo, (dis-) solve)

Oncolytic
An agent that destroys or dissolves tumors

Pharmacology
Study of the interaction between drug and organism

Pipeline
All the drug candidates that are under development

Placebo
A drug dummy, pharmacologically ineffective

Platform technology
A technology that can be used for a variety of research or application purposes

Polyphenol
Active ingredients in Polyphenon™E ointment

Polyphenon™E
A product candidate for the treatment of genital warts

Preclinic
Name for the stage of drug testing before clinical trials begin, also: preclinical trial

Primary tumor
Original tumor

Protein
A complex biological molecule made up of amino acids

R&D
Research and development

Receptor
Proteins on the outside or inside of body cells, with which certain molecules such as hormones interact and trigger a reaction in the cell

Recombinant
Genetically manipulated

Screening
Process to identify active ingredients using high-throughput analysis

Specific
Targeted

Target
A molecule used to treat a disease, often a protein, also: target molecule

Technology platform
A technology that can be used for a variety of research or application purposes

Testosterone
Male sex hormone

Therapeutic gene
A gene that can have a curative effect in cells that have undergone pathological change

T-lymphocyte
A specialized immune system cell that eliminates virally-infected cells, a cytotoxic T-cell

Toxicology
Study of the harmful effect of substances on health

Tumor vaccine
A therapeutic vaccine used to treat tumors

Validation
Proof of relevance of a gene or protein in the origination of a disease

WHO
World Health Organization

FINANCIAL CALENDAR 2002

27.03. Annual report 2001
Press and analysts conference

08.05. 3-month report
Analysts phone conference call

22.05. Annual shareholders‘ meeting

14.08. 6-month report
Analysts phone conference call

11.09. R & D day for analysts at MediGene

13.11. 9-month report
Analysts phone conference call

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...we are looking forward to speaking with you