Annual report 2002

Fighting tumor diseases

One of Europe's leading biotech companies

Broadest drug pipeline of German biotech industry

Novel drug candidates and technologies

MediGene

Comprehensive product pipeline

Productportfolio	Diseases	Clinical phase 1	Clinical phase 2	Clinical phase 3	Approval	Max. sales potential[1]
Leuprogel®	Prostate cancer					> 50 million €
Polyphenon® E	Genital tumors					> 50 million €
G207	Brain tumors		[3]			> 300 million €
NV1020	Liver metastases					> 200 million €
CVLP vaccine	Cervical cancer	[4]				> 250 million € [1) 5)]
rAAV vaccine	Malignant melanoma	[4]				> 200 million € [1) 5)]
Chance of reaching the market[2]:		10 – 30%	40 – 60%	60 – 80%	90%	

1) Per Year; Source: Analyst's estimates. MediGene will receive royalties from sales of products, which are jointly developed or marketed with biotech or pharmaceuticals companies.
2) Source: Analyst's estimates
3) Phase 1b/2
4) Phase 1/2
5) Drug candidates which are jointly developed in the framework of strategic alliances with our partners Aventis (rAAV tumor vaccine) and Schering (CVLP tumor vaccine).

Content

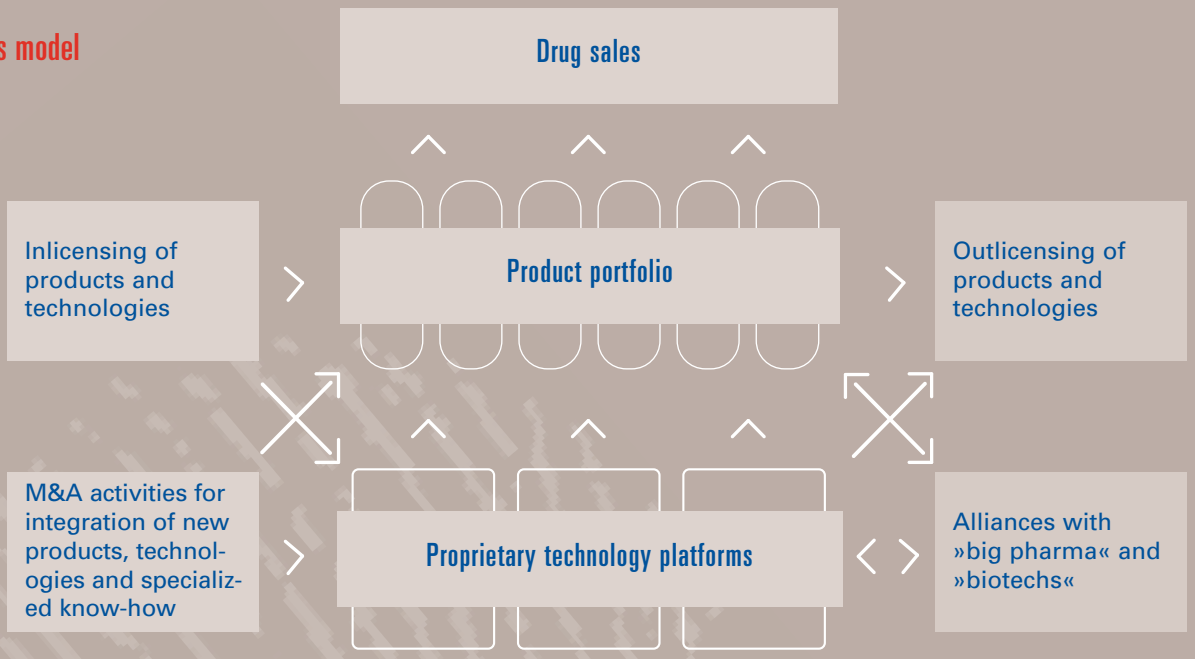
Key figures

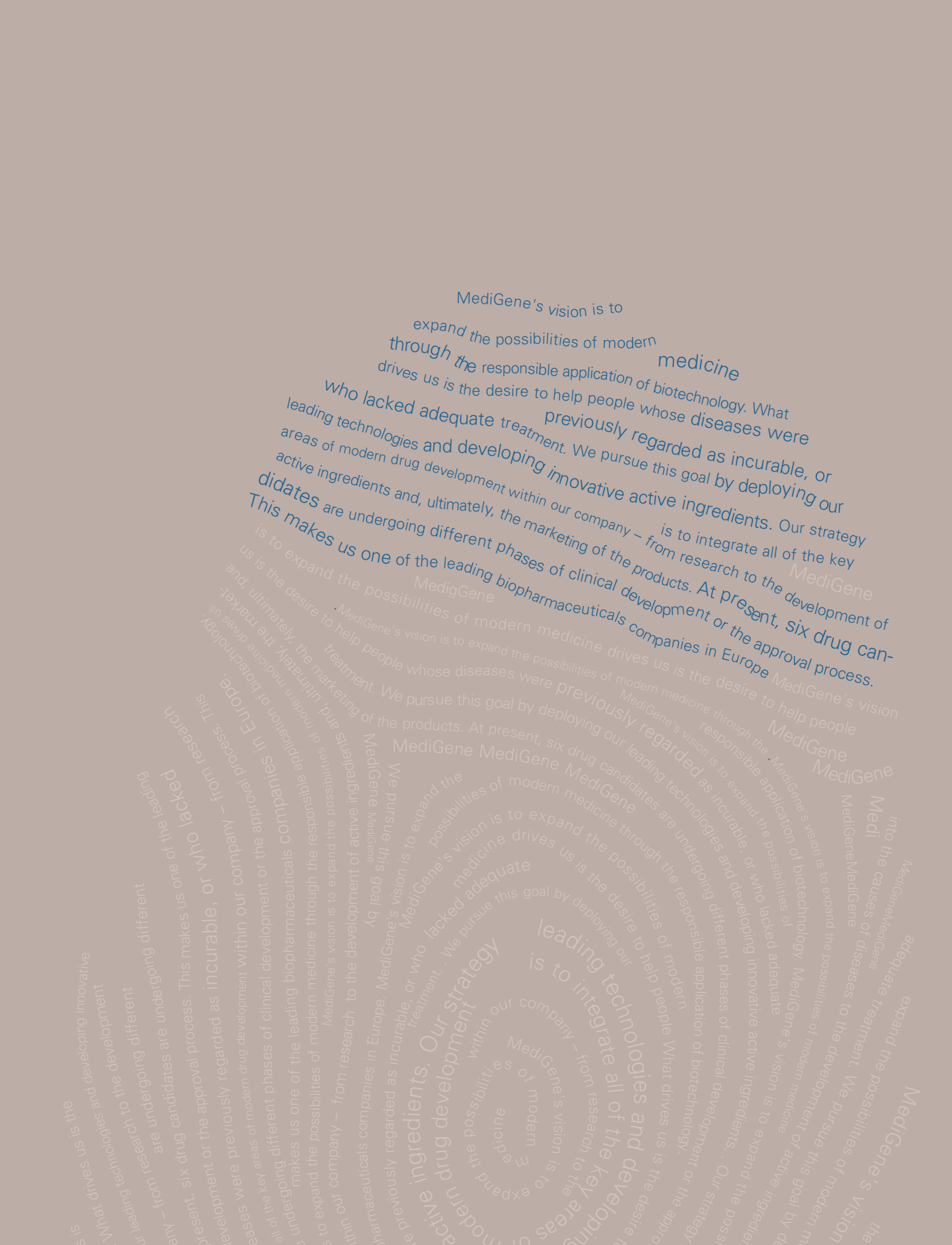
MediGene Group, US-GAAP

		2001*)	2002	Change
Income statements				
Revenues	T€	0	0	–
Other operating income	T€	7,493	3,537	-53%
Research and development expenses (R&D)	T€	-27,672	-35,245	27%
Business development and general administration expenses	T€	-5,736	-7,177	25%
Amortization of goodwill	T€	-1,845	0	-100%
Depreciation	T€	-928	-1-312	41%
Operating loss before write-off »IPR&D«	T€	-28,689	-40,197	40%
Result before income tax	T€	-110,490	-38,870	-65%
Write-off »IPR&D«	T€	-86,543	0	-100%
Personnel expenses	T€	-9,035	-12,675	40%
Balance sheet data				
Balance sheet total	T€	108,383	67,079	-38%
Shareholders' equity	T€	100,406	59,435	-41%
Cash and securities	T€	86,843	47,762	-45%
Cash and cash equivalents	T€	80,843	47,762	-41%
Long-term liabilities	T€	2,402	2,993	25%
Equity ratio	%	93	89	-5%
Cash flow				
Cash flow from operating activities	T€	-21,993	-38,635	76%
Cash flow from investing activities	T€	9,065	5,296	-42%
Cash flow from financing activities	T€	930	312	-66%
Employees as at Dec. 31		**160**	**185**	**16%**
MediGene share				
Shares outstanding as at Dec. 31		11,198,637	11,206,205	0,1%
Weighted average number of shares		11,003,245	11,204,990	2%
Net loss per share	€	-10.04	-3.47	-65%
Net loss per share adjusted for write-off IPR&D	€	-2.18	3.47	59%
Shareprice at the end of the year	€	21.2	4.0	-81%
Dividend	€	0	0	–

*) First-time consolidation of MediGene, Inc. from March 1, 2001

MediGene's business model




MediGene's vision is to expand the possibilities of modern medicine through the responsible application of biotechnology. What drives us is the desire to help people whose diseases were previously regarded as incurable, or who lacked adequate treatment. We pursue this goal by deploying our leading technologies and developing innovative active ingredients. Our strategy is to integrate all of the key areas of modern drug development within our company – from research to the development of active ingredients and, ultimately, the marketing of the products. At present, six drug candidates are undergoing different phases of clinical development or the approval process. This makes us one of the leading biopharmaceuticals companies in Europe.

Annual survey 2002

January
- MediGene publishes positive long-term results of the company's first phase 3 clinical trial of Polyphenon® E for the treatment of genital warts.
- U.S. partner Atrix Laboratories, Inc. receives FDA approval to market Eligard® 7.5 mg (Leuprogel®/one-month depot) in the U.S. MediGene holds the European marketing rights.

February
- MediGene appoints Alexander Dexne, who holds a master's degree in economics, Chief Financial Officer as from May 1, 2002.

March
- U.S. patent issued for the production of a vaccine against cervical cancer.
- MediGene files an appeal against court decision in the litigation against Loyola University of Chicago and MedImmune, Inc.
- MediGene and the University of Chicago sign joint research agreement in the field of oncolytic herpes simplex viruses.
- First stage of the cooperation with Evotec OAI in the field of cardiological research was successfully completed.

April
- MediGene announces the premature discontinuation of the clinical phase 2 trial of the drug candidate Etomoxir for the treatment of congestive heart failure.
- MediGene submits Marketing Authorization Application to the German regulatory authorities BfArM (Bundesinstitut für Arzneimittel und Medizinprodukte) for the three-month depot Leuprogel® product to treat prostate cancer.

May
- Patient recruitment completed for the phase 1/2 trial of the CVLP tumor vaccine.
- Promising interim results of a phase 1/2 trial of the drug candidate NV1020 for the treatment of liver metastases presented during the renowned American Society for Clinical Oncology (ASCO) meeting.
- The FDA grants Orphan Drug Designation for the drug candidate G207 against malignant glioma.

June
- MediGene discontinues the development of the drug candidate Etomoxir for the treatment of congestive heart failure.

July
- Atrix Laboratories, Inc. receives FDA approval to market the Leuprogel® three-month depot product in the U.S. In April, MediGene had applied for the European marketing authorization on the basis of the data submitted by Atrix.

August
- The U.S. Patent and Trademark Office issues two patents for specific oncolytic herpes simplex viruses.
- MediGene announces decision to spin off its cardiological drug discovery program.

September
- Successful completion of the first clinical phase 1/2 trial of NV1020 for the treatment of liver metastases.
- The U.S. Patent and Trademark Office grants MediGene two patents for the rAAV technology, the basis of a vaccine developed for the treatment of malignant melanoma.
- The second and final clinical phase 3 trial of the drug candidate Polyphenon® E has been initiated.

November
- In its 9-months report, MediGene publishes an adjustment of its year-end result projected in the first quarter of the year, from -35 million € to -40 million €.
- MediGene receives U.S. patent on a skin test for the detection of viruses involved in the onset of cervical cancer.
- Another U.S. patent has been granted for a technology to produce therapeutic viruses.

December
- MediGene is admitted to the Prime Standard of the German Stock Exchange.

January 2003
- MediGene settles patent dispute with Loyola University of Chicago and MedImmune, Inc.

February 2003
- MediGene is admitted to the TecDAX30 index of the German Stock Exchange and thus belongs to the most important equities.
- Atrix receives U.S. approval for the cancer drug Eligard® 30 mg (Leuprogel® four-month product), for which MediGene holds the European marketing rights.

Dr Peter Heinrich, Chief Executive Officer

Dear Shareholders, Ladies and Gentlemen,

2002 was one of the most difficult – perhaps even the most difficult – year that the biotechnology sector has ever experienced. Individual setbacks in clinical research, sometimes unsustainable business models, pressure on biotech companies to cut costs and the generally negative economic and capital market situation are weighing heavily on our industry sector. The biotechnology sector is therefore in the midst of far-reaching structural change, although high potential and good future prospects are ascribed to those companies whose business models are based on the development of drugs and whose portfolios already contain drugs at or near the market maturity stage. Our company fulfills these requirements.

But even MediGene had to endure a considerable setback in 2002 when it terminated a clinical development project. The increase in our planned net loss for the year also leaves us dissatisfied. I will deal with the reasons for, and consequences of, these results later.

On the other hand, 2002 was also a year in which we made gratifying progress with the further development of our product portfolio, one of the most substantial in the European biotech industry:

- We were the first German biotech company to apply for the approval of a product: the Leuprogel® drug for the treatment of prostate cancer. Since Leuprogel® has already been approved for sale in the U.S., we are optimistic about receiving positive notification from the German authorities in 2003.
- In September we harmonized – with authorities in the U.S. and Europe – and commenced a final phase 3 trial for our second – and relatively close to the market – drug Polyphenon® E for the treatment of genital warts.

»Concentrating on one of the largest and fastest-growing markets in the drug industry.«

- In September, a clinical phase 1/2 trial with our drug candidate NV1020 for the treatment of liver metastases produced positive data on the safety and compatibility of the active ingredient and provided promising early indications regarding its efficacy.
- In May, our drug candidate G207 for the treatment of brain tumors was granted Orphan Drug Designation. This ensures that MediGene will have exclusive marketing rights in the U.S. for seven years after the drug's market authorization.
- In addition, European and U.S. authorities granted MediGene seven new patents for our products and technologies during the last fiscal year. Safeguarding our ideas with patent protection is crucially important in the fiercely competitive environment that prevails in our industry.

In 2002, in addition to our endeavors in our research and development projects, we established the infrastructure that an advanced biopharmaceuticals company needs. To meet the stringent demands that the authorities make on drug development, we have considerably increased staff levels in, above all, the regulatory affairs and quality assurance segments and pressed ahead with the establishment of our U.S. branch MediGene, Inc. In the process, employees with industry experience were appointed to key positions and staff numbers were increased to the levels that are required to implement the projects.

On the negative side, we suffered an unexpected setback when we had to terminate the development of the cardiac drug Etomoxir: the convincing data from earlier studies and the results of our own preclinical research had strengthened our hopes that in Etomoxir, we would be able to develop a completely innovative therapeutic concept for the treatment of cardiac weakness. These expectations were disappointed when a small number of patients showed unforeseen side-effects. In addition, we were unable to observe any adequate indications of the efficacy of this drug candidate. On the basis of the available data, the management therefore decided

to terminate the further development of Etomoxir. This decision means that MediGene's clinical product portfolio now has an exclusively oncological orientation, with the result that it makes strategic sense for us to spin off our high quality but investment-intensive cardiological research department. In August, we therefore announced our intention of establishing MediGene's cardiology program as a new company and continuing to finance it via financial investors. It is intended that MediGene will have a minority shareholding in the planned new company and thus profit from its further development. With this spin-off we are pursuing two goals: firstly a strategic focus on our core competence in the development of tumor therapeutics and the optimization of the use of our resources that this involves; and secondly we want to serve our shareholders not only by maintaining the value that we have created, but also by giving them the opportunity to share in the future success of the program.

In concentrating on the tumor diseases segment, we are targeting one of the largest and fastest-growing markets in the drug industry. With six tumor drugs currently at the clinical development stage and three technology platforms, MediGene is ideally positioned for this market of the future.

We are confident that we will be able to bring Leuprogel®, our first and almost market-ready cancer drug, onto the market in 2003.

We plan to approach this task in cooperation with a pharmaceuticals company that is already established in the field of drug sales. It was not possible to conclude the negotiations with potential partner companies by the end of last year; as a result, the payments that were expected to accompany the signing of the contract could not be posted in the accounts in 2002. Consequently, our company's net loss for the year increased to 38.6 million € instead of the expected 35 million €. We are assuming that we will be able to announce a suitable marketing partner during 2003.

Against the background of the events outlined above and a highly problematic capital market, the MediGene AG share suffered a substantial loss in value in 2002. The fact that the shares of almost all of the biotech companies suffered to the same extent provides neither consolation nor justification. The management of MediGene is seriously committed to countering the negative development of the stock price with a convincing business trend and responsible investor relations work.

In the wake of the negative trend on the Neuer Markt, we welcome the decision by the German Stock Exchange (Deutsche Börse) to set up the Prime Standard, a segment whose task is to regain the trust of investors. MediGene was one of the first companies to be approved for inclusion in the Prime Standard, thus reiterating its intention to continue its practice of reporting comprehensively and transparently on the development of the company. The German Stock Exchange announced in February the inclusion of MediGene into the TecDAX30 index.Thus, MediGene belongs to Germany's most important equities in the technology segment.

»The admission to the TecDAX30 index turns MediGene into one of the leading German technology shares.«

In addition to that, we have established principles of value-oriented company management and control (Corporate Governance) at MediGene. These go beyond the legal stipulations and represent a self-imposed obligation that we are entering into, in the interests of our shareholders and our business associates.

The last fiscal year again clearly demonstrated the precision of the strategy behind the broad product portfolio, based on different technologies, that MediGene has been pursuing for the past few years. This prevents us from being dependent solely on the success of a single product. The future potential of our products is regularly evaluated with the help of an opportunity/risk profile. We subject our technologies and drug candidates to meticulous technical and economical analyses and, at the same time, search for promising technologies and development projects with which we could supplement our portfolios.

The European biotech sector is facing a process of consolidation. MediGene is well prepared to take advantage of any opportunities that may arise and to emerge strengthened from this difficult market environment. In the future, as in the past, we will carefully examine all of the options that are available for licensing agreements and acquisitions or mergers. Our goal is to generate sufficient critical assets for further growth and increase our competitiveness. In the process, we always place special emphasis on the added value that we aim to generate and that should benefit you, our shareholders, in particular.

We are convinced that new, forward-looking drugs, in particular, will take the industry back into the investors' line of vision. We will do everything in our power to ensure that our company contributes to this development. We have scheduled the market launch of our first product for 2003. In addition, our financial budget for 2003 provides for an annual loss reduction to approx. € 30 million.

MediGene has ambitious goals and wants to improve its position as one of the leading biotech companies in Europe. Our mature product portfolio, our innovative technologies and our outstanding employees constitute an excellent starting position for achieving that goal.

At this point I would like to extend my warmest thanks to all employees for their commitment and excellent work.

In the name of the Executive Board, I would like to thank you, our shareholders, for your trust in MediGene AG and hope that you will continue to support us in the pursuit of our goals.

Martinsried, in March 2003

Dr Peter Heinrich

Executive Board of the MediGene AG

Dr Peter Heinrich
Chief Executive Officer, Co-Founder

Dr Peter Heinrich, co-founder of the company, has been Chief Executive Officer of MediGene AG since 1995. Prior to that he was in charge of developing the biotechnology division at Wacker Chemie, a subsidiary of former Hoechst AG. During his seven years with Wacker he held various research as well as management positions. Dr Heinrich had studied biology and chemistry at the University of Munich and earned his PhD in biochemistry. Afterwards he worked as a scientist at Harvard University.

Dr Heinrich is president of the Emerging Biopharmaceuticals Enterprises (EBE), a specialized group within the European Federation of Pharmaceuticals Industries and Associations (EFPIA), Brussels. Moreover, he is 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), and a member of the Supervisory Board of Wilex 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.

Alexander Dexne
Chief Financial Officer

Since May 2002, Alexander Dexne has been Chief Financial Officer of MediGene AG. Alexander Dexne attended the University of Göttingen and holds a master's degree in economics as well as an MBA degree acquired in New Zealand. After graduation, he gained ten years of experience in international finance management. He worked as a consultant for Price Waterhouse, and afterwards he was authorized officer in charge of the finance department at Olympus Diagnostica GmbH. Later on he was appointed General Manager Finance & Controlling Europe at the European headquarters of the Olympus corporate group, responsible for controlling, group reporting and treasury. Before joining MediGene AG, he was a member of the Executive Board at the software company Kiwilogic AG, in charge of finance and operations.

Our strategy

MediGene's strategic goal is to integrate all of the core segments of a modern biopharmaceuticals company – research, drug development, and ultimately drug marketing.

We have already achieved some crucial objectives on the way to that goal: MediGene possesses its own technologies for the development of drugs and already has six drug candidates at the clinical development stage. One of these candidates is expected to be granted marketing authorization in 2003.

The next step will be to market our drugs internationally – initially in cooperation with partner companies. Revenues from drug sales and income from research and development cooperations should help us to finance the development of further therapeutics and lead the company into profit.

MediGene – a leading European biopharmaceuticals company

What is our future

market?

The human being.

The human being is the focus of our research and development. With the help of modern biology and medicine we are developing innovative therapies for the treatment of human diseases. If our biopharmaceuticals products are launched on the market successfully, they will be able to help many patients who were previously regarded as terminally ill or unable to be treated sufficiently.

MediGene develops drugs to treat tumor diseases

Cancer. Every day, 30,000 people around the world are diagnosed with it and their lives change as a result. Over the past two years the number of new cases increased from 4.6 million to 4.8 million per year. 16,000 people die every day from malignant tumors. Experts estimate that the number of patients affected will increase by 1% to 1.5% per year as because of growing population numbers and increasing life expectancy. MediGene is developing drugs to combat different forms of tumor diseases.

Leuprogel® for the treatment of prostate cancer

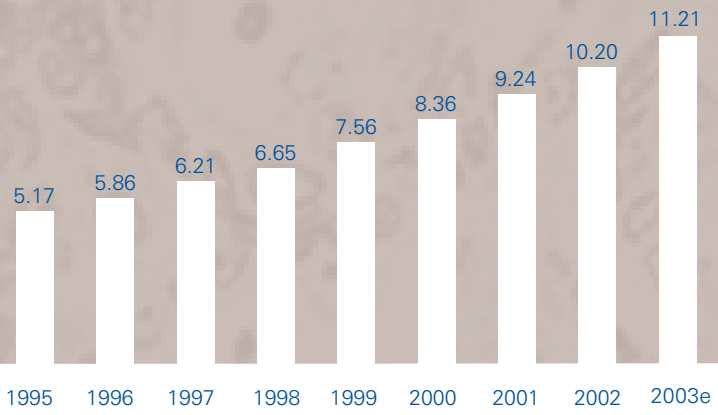
Prostate cancer is the second most common tumor disease among men. In 2000, the World Health Organization ascertained 190,000 new cases of prostate cancer throughout Europe. The American Cancer Association estimates that one patient in thirty dies as a result of the disease's consequences. In the case of prostate cancer, the growth of the tumor cells is often promoted by the male sex hormone testosterone. For that reason, the standard therapy now comprises not only the usual treatment methods, such as the surgical removal of the tumor and radiotherapy, but also hormone treatment that reduces the testosterone level.

Leuprogel® combines standard hormone therapy with a new and particularly effective form of administering that is gentle on the patient: Atrigel depot technology. The

Dr Ulrich Moebius
Sen. Director
Preclinical Development

»Contemporary medicine and biology allow us to gain a fascinating insight into structure and functionality of the human body. It is a challenging and inspiring task to utilize this insight for the development of novel therapies.«

Cancer drugs market
Revenue world forecasts in US$ billion



Source: Frost&Sullivan

liquid Leuprogel® is injected under the skin of the patient, where it forms a depot. The biodegradable depot matrix is slowly dissolved in the body and continually releases the active ingredient. Clinical studies have shown that after just one injection, the testosterone level of 94% of patients can be permanently reduced.

MediGene holds the European marketing and distribution rights for different dosages of Leuprogel®. The clinical developments of the one-month and three-month preparations have been completed and the applications for authorization submitted to the German regulatory authority. MediGene is thus, as far as we know, the first German biotech company with drug candidates in the approval process. Analysts estimate that once Leuprogel® has been launched on the market successfully, its potential peak sales will be at least 50 million € per year.

Polyphenon® E for the treatment of genital warts

Genital warts are benign tumors in the genital tract that are caused by infection with particular strains of the human papilloma virus. Around 14 million people in North America and Europe suffer from painful and disfiguring tumors in the genital area. At present, the treatment of genital warts consists mostly of surgical or chemical procedures that involve pain, scar formation and local skin reactions such as burning and itching. Furthermore, these traditional forms of therapy do not usually have a lasting effect but rather a high relapse rate.

In Polyphenon® E, MediGene has a natural ingredient at the clinical trial stage which is extracted from the leaves of green tea. At the end of 2001, a phase 2/3 study of this drug candidate, which is applied as an ointment, was completed with highly promising results. The recovery rate was 59%. The relapse rate of the patients, whose therapy had been successful, was very low at 12.5%. A second, far more extensive phase 3 study was commenced in September 2002. Analysts expect maximum annual sales potential of 50 million € for Polyphenon® E ointment.

HSV therapeutics for the treatment of brain tumors and liver metastases

Around 20,000 cases of malignant brain tumors (glioblastomas) and 164,000 cases of patients with liver metastases that result from colorectal cancer are diagnosed each year in Europe and the U.S. With both of these tumor types, surgery and radiation or chemotherapy achieve only very limited success. Until now, patients with glioblastomas or liver meastases have unfavorable prospects and usually a low life expectancy.

In clinical trials, MediGene is testing the efficacy of two drugs derived from HSV technology. This is based on herpes simplex viruses (HSV), which are modified genetically so that they can

destroy tumor cells selectively without harming healthy tissue. Analysts estimate that these drug candidates have an annual peak sales potential of 200 million € (NV1020) and 300 million € (G207), respectively.

G207 for the treatment of malignant brain tumors

MediGene is currently testing the safety and efficacy of the drug candidate G207 in a clinical phase 1b/2 trial. In May 2002, the U.S. regulatory authority FDA granted G207 the Orphan Drug Designation. This secures MediGene exclusive marketing rights in the U.S. for seven years after its market authorization.

NV1020 for the treatment of liver metastases

In September 2002, MediGene successfully completed a clinical phase 1/2 trial for the drug candidate NV1020. NV1020, another oncolytic herpes simplex virus for the treatment of liver metastases resulting from colorectal cancer, was tested for its application safety with highly promising results and examined for the first indications of its efficacy. A more advanced phase 2 trial is at the preparation stage.

rAAV tumor vaccine for the treatment of malignant melanoma

Around 67,000 new cases of malignant skin cancer (malignant melanoma) are diagnosed in Europe and U.S. each year. Since 1981, the number of new cases has increased by 3% annually in the U.S. alone. Malignant melanomas are currently treated with aggressive chemo and radio therapies. In the later stages of the disease, however, when metastases have already appeared, these therapies are limited in their efficacy and lead to strong side-effects.

MediGene, in cooperation with the pharmaceuticals company Aventis, is developing a tumor vaccine for the treatment of malignant melanoma on the basis of rAAV technology. The tumor vaccine is produced from the patient's own tumor cells into which immunostimulating genes are introduced with the help of recombinant (i.e. genetically altered) adeno-associated viruses (rAAV). This is intended to stimulate the immune system of the patient in order to combat the malignant tumor cells. The project is currently at the clinical phase 1/2. MediGene, together with Aventis, is the first company in Europe to conduct a clinical study on the basis of adeno-associated viruses. The sales potential of drugs for treating malignant melanoma is estimated at over 200 million € per year.

CVLP vaccine for the treatment of cervical cancer

After breast cancer, cervical cancer is the most common cancer disease among women. Among others viral infections with particular sexually transmitted human papilloma viruses is held responsible for the tumor disease. More than 33,000 cases of cervical cancer are diagnosed in Europe and the U.S. each year. Between one and four per cent of the female population display high grade changes (dysplasias) in the cervix – a precursor stage of cancer. Ten per cent of these women develop malignant tumors as a result. Until now there has been no drug for the treatment of these dysplasias, caused by the virus, and the cervical cancer that consequently develops.

MediGene, in cooperation with the pharmaceuticals company Schering, is developing a therapeutic CVLP tumor vaccine to combat these diseases. CVLP technology is based on genetically produced virus-like particles (chimeric virus-like particles = CVLP) that trigger the immune system of the patient bringing about the selective destruction of the tumor cells through the activity of the body's own defenses. The results of the phase 1/2 studies are expected during the first half of 2003. Analysts estimate an annual sales potential of 250 million € for drugs to treat cervical cancer.

What are our


risks?

Opportunities.

The essence of biopharmaceuticals drug development lies in the researching of the unknown, and thus involves both opportunities and risks. Our business demands pioneering scientific work, whose success must first be tested and proven in lengthy and costly studies. The probability that individual drug projects will not be brought to conclusion is high. On the other hand, approved drugs can have substantial sales potential. We are building upon a number of different projects so that the loss of individual products can be absorbed. If we succeed in developing a proportion of our products right up to the market maturity stage, we will be able to provide therapies for fields with high medical demand and great commercial potential.

Dr Axel Mescheder
Vice President
Clinical Development

»Clinical drug development is a very complex task. The design of clinical trials, the approval application and the appropriate interaction with the regulatory authorities are the keys to success. MediGene brings along the necessary know-how as well as the experience needed to translate scientific insight into novel therapies.«

MediGene is competent in every phase of drug development

The development of a drug is one of the most demanding and lengthy of all industrial product development processes. Numerous scientific studies have to be conducted before a drug can be marketed. Efficacy, possible side-effects and the behavior of the active ingredient in the human body are the subject of the tests. At the same time, the possibility of manufacturing the active ingredient must be guaranteed. Therefore, we develop elaborate manufacturing processes that must fulfill the most stringent product quality requirements. On average, the development of a drug, from the idea to the conclusion of the testing phases, takes ten to fifteen years. Many projects are terminated prematurely during this period for patent, economical or scientific reasons. The drug development process ends with the application for marketing authorization, which is submitted to the regulatory authorities for assessment. Another one to two years then pass before the authorities have completed their assessment of the application and, if appropriate, granted the marketing authorization.

The financial and technical expense and the scientific know-how that are necessary to develop a drug thus make great demands on a company.

MediGene has every competence in modern biopharmaceuticals product development in place: from research into preclinical and clinical development, through process development for producing the active ingredients, right up to the approval of the products. Furthermore, in 2002, we enhanced our quality assurance activities further to enable us to fulfill the high demands to which the authorities will subject drug candidates in the future. With this broad position in the drug development field, MediGene is one of the

leading players in the European biotech industry.

Research as the basis for innovation

In the research field we are laying the foundations for long-term organic growth. Here is the source of scientific ideas that are subsequently tested in preclinical and clinical trials. MediGene's scientists are currently concentrating on advancing our technologies and are developing our next generation of drugs in the laboratories. Our activities in this field are focused equally on the improvement of the properties of current drug candidates and the opening up of additional application possibilities for further disease patterns. As well as our own research activities, we maintain a collaborative network with U.S. and European academic institutions and clinics.

Key competence in preclinical and clinical development

One of our most important strengths lies in the preclinical and clinical development of drugs. We have already proven our competence with the implementation of numerous studies in Europe and the U.S. In preclinical trials, we examine in laboratory and animal studies, whether an active compound is suitable for use on humans. The purpose of clinical trials is to examine the safety and effects of a potential drug on humans. The correct study design is one of the crucial success factors in the clinical development; we coordinate the design meticulously with the competent authorities. Maintaining these contacts and relationships is a highly significant factor for later success. Equally important is intensive cooperation with the respective examining doctors, who conduct our studies with their patients.

Outstanding know-how in the process development field

Our expertise in the development of the production processes for innovative biopharmaceuticals active compounds distinguishes us clearly from many of our competitors and creates a sound basis for commercializing the drug. Ensuring that the active compound can be produced is one of the greatest challenges in the field of biopharmaceuticals product development: biological active compounds as drug candidates, such as oncolytic (tumor-destroying) viruses, can be manufactured only via complex production processes. Every product candidate requires its own process, which must fulfill maximum quality standards so that the resultant product can be administered to the patient. MediGene has this know-how at its disposal: we are already manufacturing tumor vaccines and oncolytic herpes simplex viruses, which the authorities have approved for the use in clinical trials.

Experience in the approval field

The approval process is the final element in the development of a drug. This involves the comprehensive processing of the study data and an intensive exchange with the regulatory authorities in Europe and the U.S. MediGene is one of the few European biotech companies that has its own department for the approval procedure. Experienced MediGene employees are already handling the approval project for the drug Leuprogel®, whose applications for market authorization were submitted to the authorities. As far as we know, MediGene is the first biopharmaceuticals company in Germany that has a product in the approval process.

Enhancing quality assurance

In the last fiscal year, MediGene significantly expanded its quality assurance activities. Our quality assurance system fulfills the requirements of the pharmaceuticals law and complies with the criteria of the »Good Laboratory, Good Clinical and Good Manufacturing Practice« guidelines – an important prerequisite for professional and responsible drug development. The system implements the officially defined standards for the development and production of pharmaceuticals products and makes it possible to supply expert proof of the processes that are carried out at MediGene as well as at external service providers.

Drugs are developed in a number of stages

The clinical development. The testing of the active substance on humans is, depending on the objective of the study, divided into three phases through which each drug generally passes during its development:

Research	Preclinical development	Phase 1	Phase 2	Phase 3	Approval
			Clinical development		
Chance of reaching the market	**0 – 10%**	**10 – 30%**	**40 – 60%**	**60 – 80%**	**90%**
	The preclinical phase. In the laboratory and animal studies that are required by law, it is examined whether the active compound drug candidate is suitable for further testing on humans.	Ascertaining tolerability on the basis of a small number of healthy volunteers, in the case of oncology products: patients.	Ascertaining the optimum dosage, administering to patients for the first time.	Proving efficacy with a large number of patients; frequently in comparison with standard therapy.	

The probability of success for drug candidates is increasing as development advances

The further an active compound advances in the individual phases of drug development, the more probable its subsequent market authorization becomes. Industry analysts give products that are tested in the clinical phase 1 a 10 to 30% probability to reach the market. This increases to an average of 40 to 60% in clinical phase 2 and to 60 to 80% in phase 3. Once the clinical studies have been completed successfully, the data that were gathered are submitted to the regulatory authorities, which decide on whether to grant the product market authorization. In the examining phase before authorization, the probability of the drug being launched on the market is 90%. The value of a drug pipeline thus depends to a large extent on the development stages of its products. With one product in the authorization phase, one phase 3 product candidate and four further active compounds in phase 1/2, MediGene's pipeline is excellently positioned within the European biotech industry.

Active portfolio management increases opportunities and limits risks

MediGene counters the risks of failure of individual drug projects with a broad product portfolio that is based on a variety of technologies. In the last fiscal year, we prematurely terminated the development of one of our products, the cardiac drug Etomoxir, during the clinical phase 2 trials. The active ingredient had triggered side-effects in individual cases and did not show the hoped-for therapeutic effects for the patients that had been treated by then. The termination of this project was a setback for our company. Our product pipeline, which now comprises six drug candidates of which two are at highly advanced stages of development, is nevertheless the largest and most mature pipeline in the German biotech industry. MediGene thus remains one of the leading biopharmaceuticals companies in Europe. MediGene will optimize its own product pipeline and extend it with further products in the future, too. Here, the termination of individual projects is just as much a part of the catalogue of possible measures as the expansion of our product range by in-licensing or acquiring new drug candidates. In this way, MediGene offers a portfolio that takes account of the scientific and economic risks of drug development and offers great opportunities for lasting success (Risk report cf. p. 66).

What enhances


our perspective?

Focusing.

Entrepreneurial success lies in the consolidation of powers and the concentration on key areas of competence. The identification of attainable goals is no less crucial than the optimum deployment of the available resources. When we decided to focus on tumor diseases in 2002, we parted company with our cardiological activities and concentrated fully on our core business, the development of drugs for the treatment of tumors. Our special expertise is in the field of biological active agents, so-called biologicals.

Dr K. Jon Kowal
Managing Director
MediGene, Inc., USA

»Only new technologies and therapeutic approaches will provide the required progress in treatment of cancer. With our oncolytic herpes simplex virus technology, we at MediGene, Inc. are developing an approach which might open the door to milder and more effective medication for cancer. With three technologies to generate biologicals for the treatment of tumors MediGene is well positioned to serve the medical needs of the future.«

MediGene concentrates on one of the fastest-growing markets in the drug industry

The tumor therapeutics segment offers tremendous opportunities. In 2002, cancer drug sales of more than 10 billion € were achieved worldwide. Experts are forecasting market growth of approx. 11% per year over the next ten years. In particular, much is expected from new forms of therapy that are likely to be developed at an increasing rate by the biopharmaceuticals industry.

Biological active ingredients and innovative technologies for the treatment of cancer

MediGene currently has six tumor drugs in various phases of clinical development. We expect one of these, Leuprogel® for the treatment of prostate cancer, to be granted market authorization in Germany in 2003. Polyphenon® E, our drug for the treatment of genital warts, is currently at phase 3 of clinical development, and four more cancer drugs for the treatment of brain tumors, cervical cancer, liver metastases and skin cancer are currently the subject of studies in the clinical phase 1/2. Altogether, our current drug projects have combined a maximum sales potential of up to 1 billion € per year. MediGene will receive a proportion of the profits from the sales of those products that we develop and/or market in cooperation with pharmaceuticals companies.

Most of our drug candidates are based on technologies that have been newly developed by our scientists with the help of biotechnological methods. These technologies were used to create biologicals for the targeted treatment of cancer diseases. Unlike chemicals, biologicals are substances of biological origin, e.g. oncolytic viruses.

In future, we expect our technologies to generate new drug candidates within our product pipeline. In addition, our technology platforms offer diverse opportunities for out-licensing and for cooperation with potential partner companies.

Viruses as »cancer killers« – oncolytic herpes simplex viruses (HSV)

Oncolytic HSV are herpes simplex viruses that were genetically modified to destroy tumor cells selectively without damaging healthy tissue. Cancer cells are distinguished from normal cells by their uncontrolled, fast growth. It is this very difference that is used by HSV technology: oncolytic viruses are geared towards entering tumor cells, multiplying within them and thus bringing about the cell death of the tumor cells (oncolysis). Since the viruses require fast-deviding cells to multiply, this mechanism targets tumor cells but not normal tissue – healthy cells are spared.

Therefore, oncolytic viruses have the potential to overcome the restrictions of conventional tumor treatment methods such as chemotherapy or radio therapy. The application of HSV is expected to produce fewer side-effects and offer an effective alternative for the treatment of tumors that cannot be removed surgically or have developed a resistance to chemotherapy or radio therapy. The safety of MediGene's oncolytic HSV is heightened by the fact that they can be inactivated by drugs that already have been approved.

MediGene is currently testing the HSV technology in clinical studies to treat malignant brain tumors (G207) and liver metastases (NV1020). HSV therapeutics also have the potential to be developed for other cancer diseases.

»Pseudo-viruses« as »ploys« for the immune system – Chimeric Virus-Like Particles (CVLP)

In some areas, tumors can be caused by viral infections. This is the case with cervical carcinoma and its precursors (dysplasias). The development of this disease is attributed to specific types of the human papilloma virus, which is sexually transmitted and becomes lodged in the cells of the uterine mucous membrane. Here the body cannot adequately recognize the viruses and combat them. To counteract the infection and the resultant tumor formation, therapeutic methods are required:

CVLP (chimeric virus-like particles) are empty, virus-like shells whose external form is similar to that of the human papilloma virus. With the help of CVLP technology, MediGene manufactures these virus-like shells from genetically modified proteins from the human papilloma virus. The CVLPs are injected into the patient, where they »fake« an infection for the body. This should initiate a specific immune response that destroys the tumor cells.

In fact, this is not expected to trigger any genuine infectious disease. In contrast to the natural virus, the CVLP lacks the genetic material; as a result, it cannot multiply within the cells or damage healthy cells. CVLPs might therefore be used for the therapy of persons who have already been infected – as a so-called therapeutic vaccination.

Viruses as means of transport for »smuggling in« therapeutic genes: recombinant Adeno-Associated Viruses (rAAV)

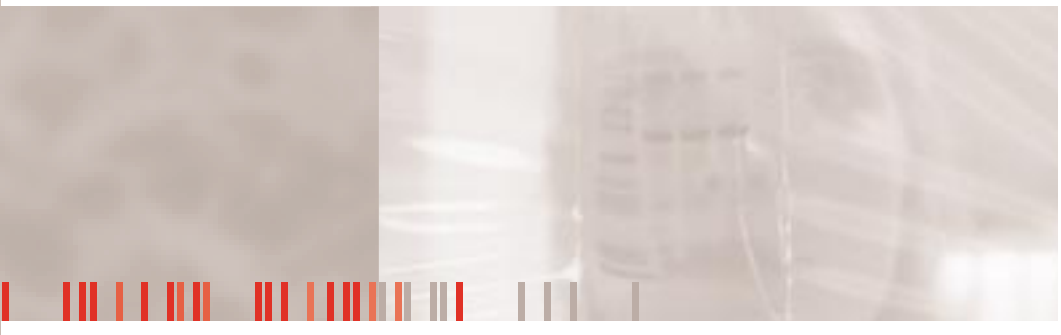
The effective treatment of some diseases that are not recognized by the body's own defenses might be possible with the insertion of immunostimulating genes. So-called gene shuttles or vectors, with whose help the therapeutic DNA

Patents

MediGene's broad patent portfolio provides our technologies and drug candidates with comprehensive protection. We have thus laid a solid foundation that ensures us a strong long-term position in the marketing of our products. MediGene holds 43 patents that have been granted in Germany and the U.S. and has applied for 61 more patents in those countries. Numerous patent applications have also been filed in other countries.

can be transported into the body's cells, serve as tools in this process. MediGene's rAAV technology uses recombinant (i.e. genetically altered) adeno-associated Viruses (rAAV) for the gene transfer. Adeno-associated Viruses are widespread, but not connected with any human disease. The application of these viruses is therefore regarded as particularly safe. To allow the rAAV to become therapeutically efficacious, they are supplemented with DNA of immunostimulating proteins, which should be released later in the patient's body.

MediGene is currently using the rAAV technology to develop a tumor vaccine for the treatment of malignant melanoma. Tumor cells are taken from the patient and rAAVs are used to insert therapeutic genes into the cells. The thus modified tumor cells are then re-injected into the patient. The objective of this process is to activate the body's own immune system to identify and destroy the tumor and any possible metastases. The rAAV technology can be used to transfer genes of different kinds, and can thus be developed for the treatment of other diseases.



The spin-off of our cardiological activities leads to a concentration on our core business of tumor therapies

MediGene's cardiological technology platform ITD (Integrated Target Definition) is going to be spun off from MediGene AG as part of the focus on tumor diseases that we decided in August 2002. In implementing these plans, MediGene has reached an advanced stage of discussions with financial investors.

In spinning off its cardiological activities, MediGene is taking an important strategic step. Concentrating on our core segment of tumor diseases will enable us to bundle our own resources so that we can press ahead optimally with our research and development projects.

What is taking


us to the top?

A down-to-earth business model.

Scientific innovation and its commercial exploitation are the objectives of our business activity. The path towards that goal is lengthy, cost-intensive and, in view of the expected failure rates, encumbered with financial risks. On the positive side, in addition to the hopes for medical progress, the potential for commercial profits can be high. Our assignment is to use commercial management to facilitate the financing of promising projects and take the company into profit.

MediGene's partnerships, licenses and M&A activities pave the way for success

In the biotechnology sector, different business models exist alongside each other. While some companies deal solely with research and make their results and/or technologies available to other companies as services (»service companies«), biopharmaceuticals »product companies« concentrate on the clinical development of future drugs. The final stage of biopharmaceuticals development is the sale of approved drugs on the market. The more advanced the development of a product, the higher the potential value added for a company. Accordingly, the highest prospective profits can be expected from the marketing of drugs.

MediGene wants to become a fully integrated company
Our goal is to integrate all of the phases of biopharmaceuticals development into the company, right up to the marketing phase, so that it can benefit from the entire value chain.

Crucial elements of this strategy have already been implemented: MediGene has three technology platforms that not only feed our product pipeline, but can also be made available for partnerships. In addition, MediGene is already taking six active substance candidates through various stages of clinical development. One of these, Leuprogel® for the treatment of prostate cancer, is already in the official approval process and is expected to be launched on the market before the end of 2003. We would like to realize this in cooperation with a European marketing partner.

Dr Claudius Wamlek
Vice President
Business Development

»The introduction of our first product Leuprogel® into the market will be a major step forward on our way to become a fully integrated biopharmaceuticals company. Our complex and well-balanced business model helps us to minimize risks and provides multiple opportunities for long-term and sustainable success.«

Stepwise strategy: setting our sights on the marketing of drugs

Although the marketing of drugs offers the highest earnings potential, at first it demands substantial investment in marketing and the establishment of a powerful distribution system. For that reason, MediGene is going to market its first products in cooperation with partner companies that already have the relevant know-how and the necessary resources for marketing drugs at their disposal. We are currently negotiating with potential partner companies for the market launch of Leuprogel®, which is planned to be launched on the German market first and then on other European markets. We expect to earn the first significant income from the sale of Leuprogel® in 2004. According to the envisaged partnership model, this income will comprise a proportionate share of the sales revenues that are generated. In 2003 MediGene also expects to receive the first milestone payments from its marketing partner.

In 2002 MediGene started to set up its own marketing department. Over the next few years we will gradually build up our expertise and our own marketing and distribution resources so that in the long term, we will be able to market our drugs ourselves.

Partnerships and out-licensing deals help to finance projects

Over the next few years we will not yet be in a position to cover the costs of our research and development projects with proceeds from the sale of drugs. That is why research and development cooperations are an important part of our business strategy. In this partnership model, the development risk and the commercial potential are shared by both sides: MediGene cedes specific marketing rights to the partner company. In return, we receive research funds, licensing and milestone payments for the project in question and a proportion of the relevant sales revenues as soon as the product comes onto the market. The rights to the underlying technology are retained by MediGene.

Until now, MediGene has established research and development partnerships with the pharmaceuticals groups Schering and Aventis: since 1999 we have been cooperating with Schering to develop a vaccine against cervical carcinoma and its precursors on the basis of the CVLP technology. In 2000 we established a development cooperation with Aventis for a vaccine to combat malignant melanoma.

The level of income that we generate from these partnerships does not show a constant trend. It depends on the amount of the research funds that MediGene invests in the project in question and then receives as reimbursement from the partner company. This explains the fact that in the MediGene accounts, »Revenues« and »Other operating income« in some years are substantially higher or lower than in previous years.

In order to cover its development costs over the next few years, MediGene is planning to set up more development partnerships along these lines in the medium term. Our products for the treatment of brain tumors and liver metastases, which are based on HSV technology, are for example suited to this model. HSV technology can also be developed for the treatment of

other tumor types. This represents further long-term potential for out-licensing deals: i.e. granting specific rights for this technology to other companies, which in return make payments to MediGene for granted licenses, achieved milestones and if so achieved product sales.

In-licensing deals to enhance the product pipeline

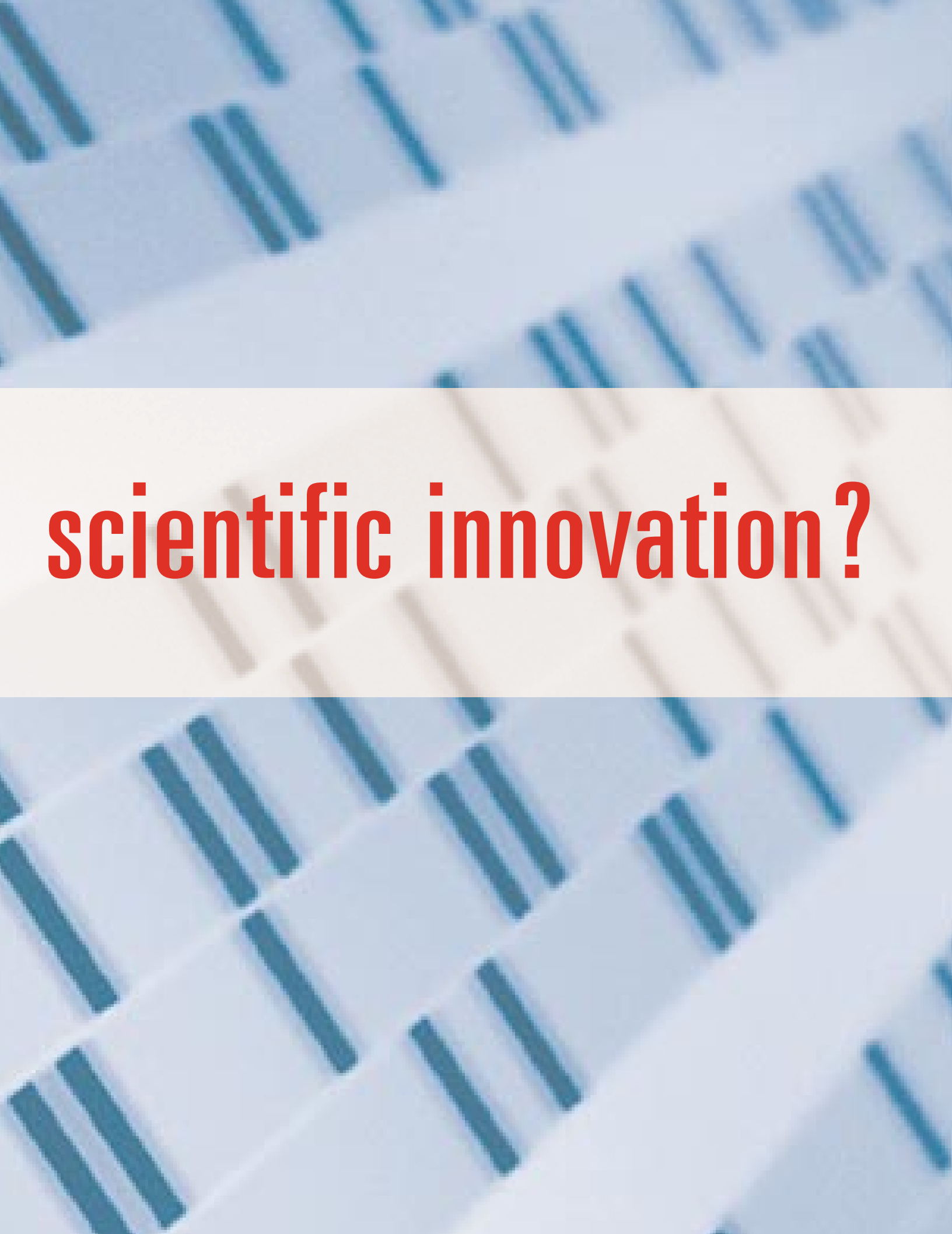
MediGene is convinced of the importance of a broad and balanced product pipeline that contains products at different stages of clinical development. The more advanced the development of a product, the higher the chances of its success and, accordingly, the closer the date of its hoped-for market launch. To increase the market proximity of the product pipeline, MediGene's business model incorporates the in-licensing of advanced individual products from other companies. In-licensing refers to the acquisition of the rights to the active ingredient in question. Conversely, we thus commit ourselves to make specific license payments and, should the products subsequently be marketed, a specific proportion of royalty payments to the licenser.

Both Leuprogel® and Polyphenon® E were integrated into MediGene's product pipeline in this way. We have in-licensed Leuprogel® after the successful conclusion of its clinical phase 3 and are now involved in the approval process. We included Polyphenon® E in our portfolio after the clinical phase 2 and are now guiding the further development of the active ingredient in a phase 3 trial. Thanks not least to our in-licensing policy, MediGene has one of the leading product pipelines in the European biotech industry at its disposal. We plan to continue supplementing our product range with further inlicensed active ingredients so that the attractiveness of our pipeline will be maintained and enhanced.

Mergers & Acquisitions as an option

M&A activities, i.e. mergers and acquisitions, are also part of our company's business policy. These measures are envisaged for cases where access to interesting new products or technologies is obtained and the critical mass of our company is enhanced. In January 2001, MediGene implemented this policy for the first time: when we bought the biotech company NeuroVir Therapeutics (now MediGene, Inc.) we acquired two cancer drugs in clinical development (G207 and NV1020) and a highly promising technology (HSV). Another important aspect of this acquisition was the establishment of a foothold on the U.S. pharmaceutical market, the most important in the world: MediGene, Inc. is now established in San Diego, California with approx. 50 employees. Mergers and acquisitions may also involve the sale or spin-off of specific business units in order to achieve a focused portfolio. This was the reason for the 1998 spin-off of MediGene's DNA sequencing services sector and the establishment of a new company. We are presently working on the spin-off of our cardiological research program. MediGene will continue to scrutinize the opportunities of mergers and acquisitions or a spin-off, provided that there is a chance that they will contribute to the company's value.

What promotes


scientific innovation?

Philosophy.

Philosophy means looking for new insights. The scientific inquisitiveness of our employees and a motivating corporate culture form the foundation of MediGene's success.

Our highly qualified employees have the motivation to tread new paths

Employees are one of the biggest success factors for innovative companies. Their ideas and their knowledge are the raw materials for new products. Their commitment takes complex projects forward.

In addition to their excellent professional qualifications and aptitude, MediGene's employees are well equipped with pioneering spirit and readiness for action. More than 50% of our employees are academics; more than half of these have a doctorate. Many of our managers have years of industrial experience and excellent contacts at their disposal; those starting their careers here bring the latest scientific know-how into the company, as well as fresh impetus and new ideas.

MediGene's potential lies in the creativity of its employees and a positive corporate culture

MediGene's scientists are researching molecular interrelations and investigating the effects of therapeutic approaches in order to gather and implement new findings for the benefit of medicine. To achieve this they require not only their specialized know-how, but also key areas of competence such as communication skills, team spirit and creativity.

Our corporate philosophy aims for progress through creativity

MediGene is trying to create a corporate culture that promotes the innovative power and motivation of its entire workforce. Short decision-making paths and open communication structures facilitate efficient and responsible work. Bonus systems and personal recognition promote initiative and a willingness to perform. A harmonious working environment finds expression in the particularly constructive cooperation that prevails between the teams here, which are frequently international in their composition. In order to promote the professional and personal skills of its employees, MediGene encourages their participation in selective further training measures and renowned specialized congresses and conferences.

In order to define common goals, values and guidelines, MediGene is presently formulating a corporate model that is being developed jointly by the management and the workforce. The objectives are to facilitate the implementation of common tasks and increase the level of identification with the company. The part played by entrepreneurial values such as »globality« and »competitiveness« in this model will be no less important than the promotion of »independence« and »initiative« as part of a leadership style whose goal is to foster innovation.

MediGene's vision is to expand the possibilities of medicine by responsibly using scientific methods. MediGene's employees show exceptional commitment to this goal. Their creativity, their knowledge and their experience are the prerequisites for realizing this vision.

»Innovation is one of our major corporate goals. We put our confidence in our employees' self-reliance and responsibility, enabling them to make full use of their outstanding know-how and to translate their ideas into action. We maintain the international exchange of information, thus supporting our scientists' efforts in the search for new insights. The big number of our patent applications prove our success in this field.«

Dr Petra Bles
Director
Human Resources

Our share.

Share data

Stock ID Code	MDG
Securities identification number	502 090
ISIN – International Securities Identification Code	DE000 5020903
Common Code	1107 3026
CUSIP	993 906 FV5
Reuters-Symbol	MDGGn
Bloomberg-Symbol	MDG
Market segment	Prime Standard
Indices	TecDAX30, NEMAX 50, NEMAX Biotech
Trading floors	XETRA, Berlin, Bremen, Dusseldorf, Frankfurt, Hamburg, Hanover, Munich, Stuttgart
Designated Sponsors	Bank Vontobel, Commerzbank, Morgan Stanley
Number of shares	11,206,205

Investor relations activities continued

Share price recovered from lowest point by end of year

In the difficult global stock market environment that prevailed in 2002, the MediGene share suffered from a substantial fall in value. Although the share price increased from its low point of € 2.75 in October to € 4.00 by the end of the year, the 80% decline over the year as a whole remains extremely unsatisfactory. With the number of shares at 11,206,205, the company's market capitalization was 45 million € at the end of the year. The trading volume of our share, despite suffering a decline of 31%, was one of the highest on the Neuer Markt with an average of 71,073 traded shares per day. The highest trading turnover was achieved on the electronic XETRA trading platform and the Frankfurt Stock Exchange.

In the first half of the year the share price was burdened not only by the difficult stock market environment, but also by the discontinuation of the development of the product candidate Etomoxir. On the other hand, numerous positive reports from the other clinical development projects failed to boost the price. At times our company was valued at below its level of cash on hand, despite the fact that during the year, we applied for approval in Germany for a drug that has already been launched on the market in the U.S.

We regard our listing in the newly created Prime Standard segment and the inclusion in the TecDAX30 index as positive prerequisites for the future growth of investor interest in the MediGene share.

»2002 was again a year of lackluster stock performance, but also a year of reformation on the German Stock Exchange. With our admittance to the Prime Standard segment we underpinned our commitment to continue a transparent and timely communication strategy as well as to address investors on an international basis. The admission to the TecDAX30 index turns MediGene into one of the leading German technology shares.«

Angelika Heinz
Vice President, Head of Corporate Finance and Investor Relations

Dr Michael Nettersheim
Manager Investor Relations

Forecasts in a difficult market environment

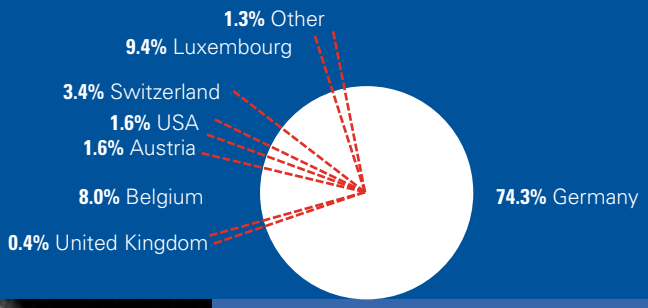
In November, the management was forced to adjust its original earnings forecast for 2002 from -35 million € to -40 million €. The earnings of -38.6 million € that were actually posted were in line with these expectations. We believe that our forecasts are an important method of creating transparency. Our expectations are nevertheless based on certain assumptions: the earnings expectations in the 2001 Annual report were based on framework conditions that changed substantially over the course of the fiscal year. In particular, the readiness of the biotechnology and pharmaceuticals industry to invest in innovative technologies and products showed a pronounced decline over the course of the year, with the result that we were unable to conclude any more licensing agreements or development partnerships for our product candidates and technologies last year and consequently had to revise our forecast accordingly.

Since our negotiations with potential partners have reached an advanced stage, we expect to conclude a contract for the commercialization of our drug candidate Leuprogel® in 2003. The estimated net loss for the year will be approximately € 30 million.

Intensive capital market communication and public relations work

In 2002, we pressed on single-mindedly with our investor relations work and again followed invitations to attend renowned investors' conferences, including the healthcare conferences held by JP Morgan H&Q and Goldman Sachs in the U.S., similar European functions held by Morgan Stanley and ING Barings, and many more. In addition, we held many one-to-one discussions with institutional investors during roadshows in the U.S. and Europe. By visiting this year's JP Morgan H&Q conference in California

Shareholder structure by country*)



»Biotechnology is a novel and complex field. It is a very motivating job to convey the peculiarities of this industry and to provide the interested public with information about our company's development. Perspicuity, openness and intense interaction with the media as well as the public are among the most important objectives of our public relations activities.«

Julia von Hummel
Manager Public Relations

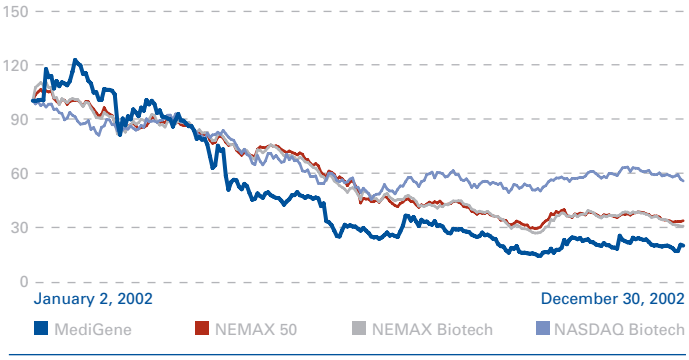
Julia Hofmann
Director Public Relations

we continued our investor relations activities in this field.

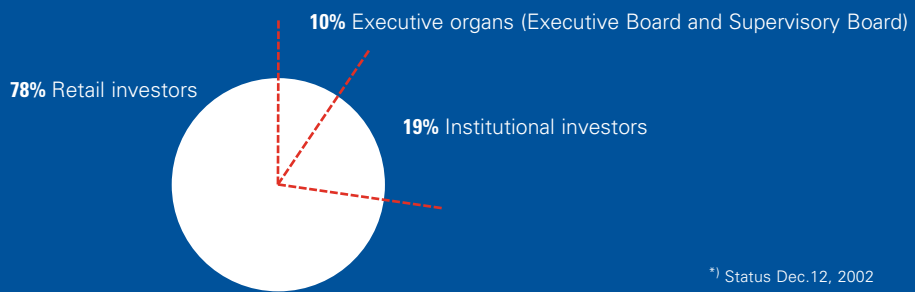
The strained situation on the capital markets also had an impact on the analyzing activities of the investment banks. Nevertheless, more than ten teams of analysts from renowned investment banks in Germany and abroad continue to compile regular studies on the subject of MediGene. At our research and development conference in September 2002, analysts took advantage of the opportunity to gain first-hand information about MediGene and to engage the management in discussions about the future development of the company.

Our open and detailed communication strategy was honored in August 2002: our 2001 Annual report achieved third place in the competition run by Manager Magazin for the companies listed in the Nemax 50. In respect of the transparency, comprehensibility and detailed nature of our reporting, we were thus ahead of most of the companies from the DAX, MDAX and SDAX segments.

Share price 2002
(January 02, 2002 € 19.90 indexed to 100)



Shareholder structure by investor type*)



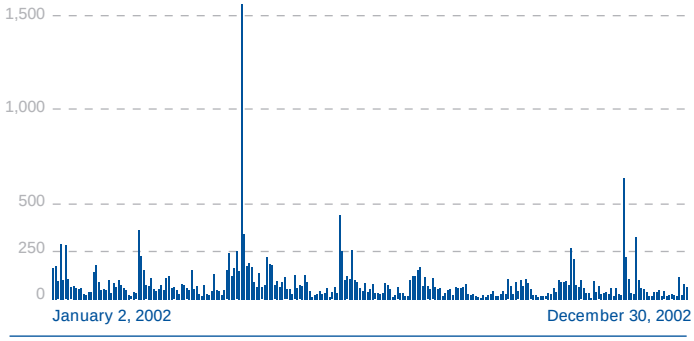
*) Status Dec.12, 2002

In 2002, we have further extended our media presence and made our company more well-known. For that reason, we have intensified our contacts with the daily media as well as with the specialized and business journals. In 2002, MediGene held numerous information functions for journalists, including its first in-house R&D day for journalists', during which the media representatives' questions on scientific themes and the course of business were discussed in detail. In addition, numerous interviews and articles by our management were published in specialized and business journals.

Trend in the shareholder structure

Compared with the previous year, the number of institutional investors decreased while the proportion of private shareholders increased markedly. The reasons for this were, not least, the poor market environment and the withdrawal of many institutional investors from the Neuer Markt. The geographical distribution shows that the proportion of shares held abroad increased only slightly. In the year under review, neither Executive Board nor Supervisory Board members sold shares from their own holdings.

Volume
in thousands



Key figures per share

	2001	2002
52 weeks high €	78.0	24.89
52 weeks low €	8.1	2.71
Opening price €	70.1	19.9
Year end closing shares €	21.2	3.95
Mean share price of the year 2002 €	25.4	8.81
Numbers of shares	11,198,637	11,206,205
Average numbers of shares	11,003,245	11,204,990
Average market capitalization in million €	280	99
Average daily trading volume	103,844	71,073
Dividend per share €	0	0
Cash flow/share €	-2.0	-3.4
Equity/share €	9.7	5.3

At the balance sheet cut-off date no investor held more than 5% of the capital stock, whilst the proportion of freely tradable shares in the capital stock (free float) was 100% as at the cut-off date December 31, 2002. The resegmentation of the German Stock Exchange and the inclusion of MediGene in the TecDax30 index make us confident of increasing the number of institutional investors again.

Please find our finance calendar 2003/2004 at the end of our Annual report.

Corporate Governance.

MediGene's voluntary commitment goes well beyond the statutory provisions

In September 2001, the German Federal Government set up the Cromme Commission and assigned to it the drawing up of a new German Corporate Governance Code. The Code was presented and adopted on February 26, 2002. It encompasses applicable statutory provisions, recommendations based on nationally and internationally acknowledged standards of conduct and further-reaching suggestions for the management and monitoring of listed companies.

The objective is to make the system of German corporate governance more comprehensible for foreign investors. We welcome the introduction of the Code and the intention to adapt it continuously to international standards.

In 2002, responsible corporate governance increasingly moved to the center of public attention

During that year, corporate collapses and incidences of fraud damaged investors' trust in the capital market and the management of listed companies. The mistrust has increased still further as a result of often inadequate communication policies. MediGene AG, as a responsible company, is therefore going to focus its communication with investors and the public to an increasing extent on its principles of corporate management and control.

The Transparency and Publicity Act (TransPuG), which came into force in the summer of 2002, created a legal basis for the Code. The newly inserted Section 161 of the Stock

Corporate governance refers to the system of responsible, value-oriented and transparent management and control of companies. This system consists of several elements:

- **clearly defined management principles and the responsibility for company organs that these involve,**
- **cooperation among these organs,**
- **open and transparent communication with the public and**
- **conscientious, reliable accounting and auditing.**

Corporation Act (Aktiengesetz) demands that the Executive Board and Supervisory Board of a listed company make an annual declaration regarding the extent of current and future compliance with the conduct recommendations of the German Corporate Governance Code. In the future it can be expected that corporate governance will continue to increase in significance as a factor in the valuation of companies. MediGene used the introduction of the German Corporate Governance Code as an opportunity to define its own standards of conduct for company management and control. The result: our company-specific Corporate Governance Principles which, as voluntary commitments, go beyond the statutory provisions. The Code encompasses all of the internal and external management, control and monitoring tasks and incorporates most of the recommendations and suggestions of the German Corporate Governance Code from February 26, 2002. Which of the Code's recommendations we are not implementing are explained in a separate declaration in accordance with Section 161, Stock Corporation Act (Aktiengesetz). To create maximum transparency, we are making not only the latest version of the declaration of conformity demanded by Section 161 of the Stock Corporation Act (Aktiengesetz), but also our Corporate Governance Principles available permanently on the MediGene website www.medigene.de.

In addition to that, the Executive Board of MediGene AG has appointed a Corporate Governance Officer from within the company; this person will report to the Board at least once a year on the

Corporate Governance – an integral system of internal management, control and monitoring functions

adaptation and implementation of our Corporate Governance Principles. In this way we are ensuring that the principles are developed continuously and that their observance is monitored.

Extracts from our Corporate Governance Principles:

Relations with its Shareholders
»MediGene AG respects the rights of shareholders and guarantees the exercise of these rights to the best of its ability within the statutory framework. In particular, these rights include:

- free purchase and free sale of shares
- equal voting rights for each share (one share – one vote)
- participation in the general meeting and exercise of the right to vote
- appropriate satisfaction of information requirements
- a share in corporate profit...«

Executive Board
»The Executive Board as a whole as well as each individual board member will conduct the enterprise's business with the due care and diligence of a precise and conscientious executive officer in accordance with the law, the Articles of Association and the Executive Board Terms of Reference. The Executive Board manages the enterprise on their own responsibility. In doing so, it is obliged to act in the enterprise's best interests and undertakes to increase sustainable enterprise value...«

Supervisory Board
»It is the task of the Supervisory Board of MediGene AG to appoint the Executive Board and to advise it regularly, as well as to supervise and support the management and the achievement of MediGene's long-term goals...«

Cooperation between the Executive Board and the Supervisory Board
»The Executive Board and the Supervisory Board cooperate closely to the benefit of the enterprise. The Chair of the Supervisory Board keeps in regular contact with the Executive Board, especially with its Chair. The Executive Board coordinates the enterprise's strategic alignment with the Supervisory Board and discusses with it at regular intervals the current state of strategy implementation, as well as risk management.

For transactions of fundamental importance, the Supervisory Board specifies provisions in the Terms of Reference for the Executive Board requiring the Supervisory Board's approval. Such transactions include decisions or measures that fundamentally change the asset, financial or earnings situation of the enterprise...«

Reporting
»MediGene informs shareholders and third parties regularly by means of Consolidated Financial Statements and by means of interim reports during the financial year. Group reporting (Consolidated Financial Statements and quarterly reports) is in accordance with the U.S. Generally Accepted Accounting Principles (GAAP), so it complies with internationally recognized accounting principles. For corporate law purposes (calculation of divi-

dend, shareholder protection), Annual Financial Statements are prepared according to national regulations (German Commercial Code), which also form the basis for taxation.

MediGene AG makes its Consolidated Financial Statements publicly available within 90 days of the end of the financial year, and interim reports within 45 days of the end of the reporting period.

In the Consolidated Financial Statements, MediGene provides specific details of:

- stock option and convertible bond schemes of the company,
- third party companies in which it has a shareholding that is not of minor importance for the enterprise (name and head office of the company, size of shareholding, amount of equity capital and performance in the last financial year),
- relationships with shareholders to be considered as »related parties« pursuant to the applicable accounting regulations.«

Audit of Annual Financial Statements

»The Consolidated Financial Statements are examined by the auditor and by the Supervisory Board.

The audit of the Consolidated Financial Statements by the auditor elected by the General Meeting and commissioned by the Supervisory Board is conducted in accordance with the relevant audit regulations.

Prior to submitting a proposal for election, the Supervisory Board or, respectively, the Audit Committee of MediGene obtains a statement from the proposed auditor stating whether and, where applicable, what professional, financial and other relationships exist between the auditor and its executive bodies and head auditors on the one hand, and the enterprise and the members of its executive bodies on the other hand, that could call the auditor's independence into question. This statement includes the extent to which other services were performed for the enterprise in the past financial year, especially in the field of consultancy, or are contracted for the following year.

The Supervisory Board agrees with the auditor that the Chair of the Supervisory Board or, respectively, of the Audit Committee, will be informed immediately of any grounds for disqualification or impartiality arising during the audit, unless such grounds are eliminated. It further arranges for the auditor to report without delay on all facts and events of importance for the tasks of the Supervisory Board that occur during performance of the audit.

The Supervisory Board further arranges for the auditor to inform it and/or note in the Auditor's report if, during the performance of the audit, the auditor comes across facts which show a misstatement by the Management Board and Supervisory Board of MediGene AG on the German Corporate Governance Code.

The Supervisory Board commissions the auditor to carry out the audit and concludes an agreement on the latter's fees.

The auditor takes part in the Supervisory Board's deliberations on the Annual Financial Statements and Consolidated Financial Statements and reports on the essential results of its audit.«

Communication with the Public

»In relaying information to people outside the enterprise, the Management Board observes the principles of transparency, promptness, openness, comprehensibility and due equal treatment of shareholders...«

Members of the Supervisory Board

Prof Dr Ernst-Ludwig Winnacker
since November 26, 1996
Chairman, Co-founder
President German Research Association
Membership of other Supervisory Boards:
- Bayer AG, Leverkusen
- KWS Saat AG, Einbeck

Dr Helmut Schühsler
since November 26, 1996
Deputy Chairman
Deputy Chairman, Managing Partner, TVM
Membership of other Supervisory Boards:
- Ascenion GmbH, Munich
- Curacyte AG, Munich (Chairman)
- DeveloGen AG, Göttingen
- Garching Innovation GmbH, Munich
- GPC Biotech AG, Martinsried
- Ingenium Pharmaceuticals AG, Martinsried
- Intercell AG, Austria
- Morphochem AG, Munich (Chairman)
- Peptor Ltd., Israel
- SelectX Pharmaceuticals Inc., USA
- Sequenom Inc., USA

Prof Dr Dr Ernst-Günter Afting
since November 26, 1996
Chief Executive Officer, GSF
Membership of other Supervisory Boards:
- BioM AG, Martinsried
- Curacyte AG, Munich
- Enanta Pharmaceuticals Inc., USA
- Intercell AG, Austria
- Sequenom Inc., USA
- Xerion Pharmaceuticals GmbH, Martinsried

Dr Pol Bamelis
since November 26, 1996
Former Management Board member of Bayer AG, Leverkusen
Membership of other Supervisory Boards:
- Agfa-Gevaert AG, Leverkusen
- Agfa-Gevaert N. V., Belgium
- Crop Design N. V., Belgium
- Evotec OAI AG, Hamburg
- Innogenetics N. V., Belgium
- N. V. Bekaert S. A., Belgium
- Oleon N. V., Belgium

Prof Dr Michael Hallek
since November 26, 1996
Co-founder
Assistant Director, Department of Internal Medicine, Großhadern Hospital of the University of Munich
Membership of other Supervisory Boards:
- Sireen AG, München

Michael Tarnow
since May 23, 2001
Biopharmaceuticals Consultant, Boston, USA
Membership of other Supervisory Boards:
- AXCAN Pharma Inc., Canada
- Caprion Pharmaceuticals, Inc., Canada
- EntreMed, USA
- Ferghana Partners, USA
- Nanopharma Inc., USA
- Paladin Labs, Inc., Canada
- Xenon Genetics, Inc., Canada

Prof Dr Norbert Riedel
since May 23, 2001
(substitute member)
President of the Recombinant Strategic Business Unit of Baxter Healthcare Corporation Hyland Immuno, USA

Extract from legal transactions requiring approval*)

The Executive Board, notwithstanding its management powers and duties, shall require the prior approval of the Supervisory Board for, among other things, the following business transactions:

- **decisions or measures that fundamentally change the assets, financial or income position of the company;**
- **the conclusion and cancellation of significant patent, licensing, know-how and cooperation contracts and the disposal of industrial property rights that are of major significance for the company;**
- **the conclusion and cancellation of significant distribution contracts;**
- **all instances of recourse to loans, provided that these do not merely involve current commercial credit;**
- **all significant transactions with Executive Board members and related persons or undertakings;**
- **annual plans, particularly the budget plans for the subsequent fiscal year;**
- **the establishment and termination of companies or enterprises, the purchase and sale of participating interests in other companies, the conclusion, alteration and termination of company lease and management contracts and contracts between business enterprises;**
- **the establishment, acquisition, closure and sale of enterprises, parts of enterprises or branches.**

*) This list is not comprehensive and merely provides an insight into the rules of procedure for the Executive Board of MediGene AG.

The Scientific Advisory Board

An international team of renowned and highly qualified experts supplements the classic organs of the corporate management.
A top-class advisory board staffed with experienced, internationally leading scientists meets at least once a year to discuss our research and development programs. The members of the board make recommendations and suggestive on strategically relevant developments and represent a kind of scientific conscience to the company.

Members of the scientific advisory council:

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.

Corporate Governance Declaration

Declaration by the Management Board and Supervisory Board of MediGene AG as per § 161 German Stock Corporation Act on the German Corporate Governance Code's Recommendations

MediGene AG at present fulfills all recommendations of the German Corporate Governance Code with the following exceptions:

Deductible in the case of D&O insurances

The German Corporate Governance Code recommends that if a company takes out a directors' and officers' liability (D & O) insurance for the members of its Management Board and Supervisory Board, a suitable deductible should be agreed. The Management Board and Supervisory Board of MediGene AG are of the opinion that the motivation and sense of responsibility with which members of the MediGene Management Board and Supervisory Board perform their tasks is fully assured even without a deductible of this kind.

Age limits for Management Board and Supervisory Board members

The German Corporate Governance Code recommends specifying age limits for Management Board and Supervisory Board members. The Management Board and Supervisory Board of MediGene AG see a specification of this kind as, for one, an inappropriate restriction of shareholders' rights to elect the members of the Supervisory Board and, for another, as a marked restriction of the Supervisory Board in its choice of suitable Management Board members.

Consideration of committee work in the compensation of members of the Supervisory Board

The German Corporate Governance Code recommends that remuneration of Supervisory Board members should take into consideration membership of Supervisory Board committees. The Management Board and Supervisory Board of MediGene AG are of the opinion that even without an arrangement of this kind a very high level of commitment of Supervisory Board members to committee work is taken for granted.

Securities transactions subject to reporting requirements

The German Corporate Governance Code sets no minimum limits as regards time or value for reporting without delay the purchase or sale by board members of shares or derivatives in the company and other enterprises in the group. With the recently introduced § 15a of the Securities Trading Act, the legislature has regulated the required extent of securities transactions subject to reporting requirements. In particular, the Act now exempts from reporting requirements transactions whose value does not make the total number of transactions completed within 30 days by the entity that is subject to reporting requirements exceed € 25,000. MediGene AG follows this legislative assessment and reports in accordance with standards laid down in the Securities Trading Act.

Martinsried, in December 2002

For the Management Board
Dr Peter Heinrich

For the Supervisory Board
Prof Dr Ernst-Ludwig Winnacker

Financial information

Management report

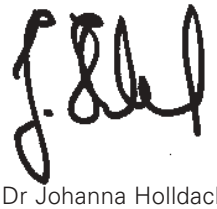
The preparation of these consolidated financial statements and the information contained in the MD&A are the responsibility of the Executive Board of MediGene AG. The consolidated accounts are drawn up on the basis of U.S. Generally Accepted Accounting Principles (GAAP) and contain certain estimates and assumptions by the Executive Board that influence the sums specified in the financial statements. These estimates and assumptions were made with the utmost care and are based on all of the knowledge that was available at the time. The consolidated financial statements and the MD&A were supplemented with information that is required by the German Commercial Code (HGB).

With the help of an effective internal risk management system that corresponds to the requirements of German Stock Corporation law, the deployment of reliable software and standardized reporting systems, we ensure that all activities within the company are performed in compliance with existing authorizations and that all business transactions are documented and processed with maximum care and attention. This integral system is supplemented by written guidelines and work instructions, an internal auditing program and the appropriate selection and training of qualified employees. The result of all this is a secure basis that makes it possible to recognize potential risks and initiate suitable countermeasures in good time and guarantees that the course of business is represented in a way that corresponds to the actual situation.

In accordance with the decision of the Shareholders' Meeting, PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft, Munich, an independent auditing company, has audited the consolidated financial statements and the Group MD&A and granted them the unqualified audit certificate. The Supervisory Board, and in particular the Auditing Committee of the Supervisory Board, discussed the consolidated financial statements, the Group MD&A and the audit report thoroughly in the presence of the auditor. The results of this audit can be found in the Supervisory Board report (p. 105).

Martinsried, in March 2003
MediGene AG
The Executive Board

Dr Peter Heinrich
Chief Executive Officer



Dr Johanna Holldack
Chief Operating Officer

Alexander Dexne
Chief Financial Officer

Management's Discussion and Analysis (MD&A)

as at December 31, 2002 – in accordance with US-GAAP

- **Cash position of 47.8 million € for the continued financing of our R&D activities**
- **Average net cashburnrate of 3.3 million € per month in 2002**
- **Income of 3.2 million € from partnerships with pharmaceuticals companies in 2002**
- **R&D expenses of 35.2 million € for the development of our product and technology portfolios**
- **Decision to spin off the cardiology research program Integrated Target Definition**

Framework data

Divergent economic trends in Europe and in the U.S.

In 2002 the economic trends in Europe and in the U.S. were divergent: whilst the increase in gross domestic product rose from 2.1% (2001) to 2.4% in the U.S. despite a higher jobless rate, the economic downturn in Germany and the Eurozone got worse. GDP growth declined to 0.2% in Germany (2001: 0.7%) and 0.8% in the Eurozone (2001: 1.5%), accompanied by a further increase in unemployment (Germany: 8.1%; Eurozone: 8.2%).

Despite the improvement in the U.S. economic trend, the increase in the country's trade deficit led to a significant decline in the value of the U.S. currency against the euro in the second half of the year. The euro became stronger in relation to the U.S. dollar in 2002; from the beginning of the year, the reference rate increased by 18% from 0.8823 to 1.0415 U.S. dollars per euro. The upward trend continued at the beginning of 2003 with the euro comfortably exceeding the parity level. If the U.S. achieves discernibly greater economic momentum than Europe in 2003, the dollar could increase in value.

Money market interest rates hit rock bottom

Inflation declined in each of the economic zones. Nevertheless, at the end of last year both the U.S. Central Bank (Fed) and the European Central Bank reduced key interest rates by 0.5% to fuel economic growth. The money market interest rates appear to have reached their lowest point in this economic cycle. In 2003, comparatively low capital market rates can generally be expected. The Fed is unlikely to increase its rates until an economic upturn in the U.S. becomes evident in spring.

Tight situation on the capital markets

The stock markets once again disappointed investors in 2002: throughout the world, both the traditional indices and the high-tech indices had to endure heavy losses. On the Neuer Markt (Frankfurt, Germany), the relevant benchmark indices NEMAX 50 and NEMAX Biotech both reached new all-time lows in the third quarter. Besides the generally negative economic environment, numerous negative company announcements and individual cases of suspected fraud shook investor confidence and led to a real sell-out on the Neuer Markt, the high-growth segment of the German stock market. The poor condition of the capital markets has in this manner practically brought the financing of companies to a standstill. This trend has persisted to the point where it now affects non-listed companies, with the result that here too, pressure to consolidate has increased markedly. The dramatic increase in the number of insolvencies, together with individual acquisitions and mergers, confirm this trend.

Long-term framework conditions for biopharmaceuticals companies remain intact

Consolidation phase in European biotech sector continues

Following its successful year in 2000, when there was a record number of company start-ups, financing rounds and IPOs, the European biotechnology sector is now in a consolidation phase. The growing number of acquisitions and mergers indicate that this process is accelerating.

It is particularly biopharmaceuticals companies that do not have any products on the market or in the last phase of clinical development, who are badly affected by the difficult capital market conditions. Last year this resulted not only in numerous restructuring measures, but also in the first insolvencies; it also set the sector's merger and acquisition efforts in motion. This trend can be expected to continue, with the capital markets remaining strained. Past experience has shown that the larger companies, in particular, emerge strengthened from phases of consolidation.

Biotech is growth engine for pharmaceuticals industry

Patents for many top-selling active ingredients are expiring and as a consequence the growth of pharmaceuticals companies is threatened through the competition from generic products. On average, the big pharmaceuticals corporations launch less than one new product per year, meaning that there are too few products in the development pipeline to provide the necessary growth. In the field of tumor diseases, in particular, there is a lack of promising medicines with new modes of action in both early and advanced stages of development. The biotech industry can help to close this innovation gap.

An important growth engine in the pharmaceuticals industry comprises partnerships with biotech companies that provide innovative technologies enabling the development of new, effective drugs or drug candidates. Within the industry, roughly 60% of newly approved medicines in 2003 are expected to originate in biotech laboratories. The general slump in the economic situation and at the same time the declining earnings situation within the pharmaceuticals industry resulted in a considerably restrained propensity to invest in forward-looking technologies and projects of biopharmaceuticals companies in 2002. Only isolated partnerships were formed between pharma and biotech companies while a number of existing alliances were even cancelled on the side of the pharmaceuticals industry.

Research findings must be patentable

An essential component of the value of a biopharmaceuticals company is the legal protection of its scientific findings, technologies and products. Against this background, the patent and license portfolio is a crucial value factor. Patents form the legal basis for the exclusive commercial use of scientific findings by prohibiting others from using them – usually for 20 years after the patent application.

A patent does not establish a claim to ownership but only a time-limited right to exclude third parties who want to make commercial use of the patent holder'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.

Group overview

MediGene focusses on tumor diseases

MediGene's first drug, Leuprogel® for the treatment of advanced prostate cancer, is likely to be launched on the market in 2003.

The market launch of Leuprogel® will enable us to earn income from product sales for the first time. With regard to the marketing of Leuprogel®, we have opted for a strategy of launching the product on the market in cooperation with an established pharma-partner. The level of this income will therefore be partly dependent on the future marketing partner. Until the market launch of the first drug candidate we will report only on »other operating income«, which is generated mainly by our co-operations with Schering and Aventis.

Our business activities are focused on the research and development (R&D) of new drugs and technologies. Our current success is heavily dependant on the findings of the preclinical and clinical trials that are necessary for the market approval of our drugs. In the future, the marketing of the drug candidate Leuprogel® is expected to contribute to our success.

Acquisition in 2001 makes year-on-year comparison more complicated

The results for the fiscal years 2001 and 2002 are comparable only to a limited extent. In 2002 we consolidated our fully-owned subsidiary MediGene, Inc. over the entire reporting period for the first time, whilst in the previous year only the period from March to December 2001 was taken into account. MediGene, Inc. was integrated into the MediGene Group after its acquisition in March 2001. The company researches and develops oncolytic herpes simplex viruses. The relevant R&D expenses are posted in the oncology segment. At present no income is being earned by MediGene, Inc. Detailed information on the comparability of the financial statements from 2001 and 2002 can be found in the Notes (p. 80).

Income statement (abbreviated)

in T€	2001*)	2002	Change
Other operating income	7,493	3,537	-53%
R&D expenses	-27,672	-35,245	27%
Business development and general admin.	-5,736	-7,177	25%
EBITDA	-25,915	-38,885	50%
Depreciation	-928	-1,312	41%
EBITA	-26,844	-40,197	50%
Goodwill depreciation	-1,845	0	-100%
EBIT before write-off »IPR&D«**)	-28,689	-40,197	40%
Write-off »IPR&D«	-86,543	0	-100%
Operating loss	-115,232	-40,197	-65%

*) First-time consolidation of MediGene Inc. from March, 2001
**) In Process Research & Development

MediGene, Inc. – U.S. subsidiary expanded

Pressing ahead with clinical development of two tumor drugs

We are represented in the U.S., the world's biggest pharmaceuticals market, by our subsidiary MediGene, Inc. Our U.S. activities currently encompass research and development in the field of tumor-dissolving herpes simplex viruses. The subsidiary's workforce was increased to 52 (2001: 37 employees).

In the year under review, our U.S. team pressed ahead with the development of the technology platform »oncolytic herpes simplex viruses« and achieved notable success with the clinical development of the drug candidates NV1020 for the treatment of liver metastases and G207 for the treatment of malignant brain tumors: In May 2002, MediGene, Inc. announced promising findings from a phase 1/2 trial for NV1020; in addition, the U.S. regulatory authority FDA granted Orphan Drug Designation to G207. The Orphan Drug Designation ensures that MediGene will have regulatory support for the development of this product candidate. On top of that, successful development will result in guaranteed tax breaks and seven-year market exclusivity. The U.S. team is part of our R&D organization and the associated reporting structures.

Partnerships and license agreements with Schering and Aventis

R&D activities are the focal point

In the year under review, our business activities were focused on the research and development of innovative drug candidates and technologies on which the later sale of drugs will be based. Strategic partnerships with pharmaceuticals companies underline the value and potential of our research and development. The cooperation divides the opportunities and risks of drug development between MediGene and the respective partner.
In the HPV-indications and oncology segments, MediGene generates income from strategic cooperations with Schering and Aventis. This income comprises milestone payments, reimbursement of R&D expenses and license income that is posted under other operating income. The level of R&D payments by the partner depends on the level of costs that are incurred by MediGene in the joint project in question: the higher the costs, the higher the other operating income. Other operating income is thus no indication of the present and future success of the company.

Schering: strategic development and marketing alliance for the CVLP tumor vaccine

The high quality of our technology platform »chimeric virus-like particles«, which form the basis of the therapeutic vaccine for the treatment of cervical carcinoma and its precursors, is demonstrated by a strategic development and marketing cooperation with Schering AG. The global cooperation and license agreement signed in 1999 is worth up to 55 million € for MediGene and is open-ended. This sum contains the jointly agreed R&D budget for the development program, in which MediGene will participate until the proof of concept is obtained, plus legal fee funding and milestone payments. It does not take account of additional license fees or subsequent profit-sharing arrangements. Under this agreement, MediGene will be responsible for research and pre-clinical trials. The parties will conduct the phase 1/2 trial jointly. Subsequent clinical trials, approval and marketing are Schering's responsibility. In return, Schering will receive a globally exclusive license.

Aventis: strategic alliance for development of tumor vaccine against malignant melanoma

In 2000, we entered into partnership with the pharmaceuticals company Aventis 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 therapeutic concept is proven. Additionally, MediGene will receive royalty payments on all product sales. Medigene and Aventis are both involved in the execution of the phase 1/2 clinical trial. Aventis will be responsible for phase 3 clinical trials, approval, marketing and the production of the active ingredient.

Decline in other operating income -53%

Income from strategic cooperations with Aventis and Schering

The other operating income posted by MediGene declined by 53% to 3,537 T€ (2001: 7,493 T€) in the year under review. The decrease can be attributed primarily to the decline in income in the HPV-indications and oncology segments (p. 56). In the HPV-indications segment, income of 2,312 T€ was realized in 2001 by realizing a deferred income. In 2002 Schering reimbursed lower R&D expenses in accordance with the lower costs incurred in the CVLP project. In the oncology segment, a milestone payment of 1,023 T€ from Aventis, which became due when a clinical trial commenced, was posted in 2001. Payments of this kind were not expected in the year under review.

All operating income resulted from activities in the parent company and was earned in Germany.

Other operating income

in T€	2001	2002	Change
HPV-indications	4,797	1,713	-64%
Oncology	2,394	1,640	-31%
Cardiology	229	112	-51%
Intersegment*)	73	72	-1%
Total	7,493	3,537	-53%

*) Administration, business development, management for clinical development, approval and marketing and management for research and development are summarized under the item »intersegment«. The sum of all market segments and the intersegment gives the totals shown in the balance sheet and the income statement.

R&D expenses increase +27%

Total expenditure on research and development increased by 27%, from 27,672 T€ to 35,245 T€, in the year under review. The expenses reflect the clinical development of six drug candidates.

R&D expenses by segment

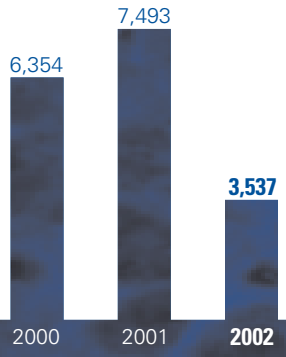
in T€	2001	2002	Change
HPV-indications	7,254	8,868	22%
Oncology	11,944	14,344	20%
Cardiology	5,976	8,524	43%
Intersegment	2,498	3,509	40%
Total	27,672	35,245	27%

In the oncology segment, the expenses are only partly comparable with those of the previous year, since the R&D expenses of our U.S. subsidiary MediGene, Inc. were included over the entire reporting period for the first time. These amounted to 10,636 T€ last year, compared with 7,056 T€ in the previous year. In the cardiology segment, we discontinued the clinical development of the product candidate Etomoxir and, in August, decided to spin off the cardiology research program. In terms of R&D expenses, the intersegment comprises expenditure on general research and development management.

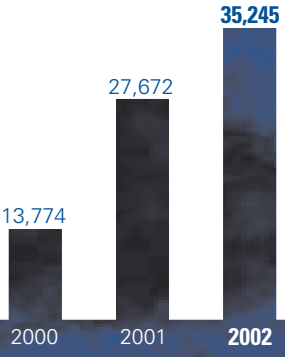
Expansion of activity in the business development and marketing segment +25%

The cost of sales – the sum of business development and marketing expenses – and general administration costs rose to 7,177 T€ in 2002 (2001: 5,736 T€) – an increase of 25%. This increase was caused by the stepping up of our activities in the

Other operating income
in T€



R&D expenses
in T€



fields of business development and marketing. The selling expenses reported in the profit and loss statement contain – for the first time – costs that were incurred for the preparatory measures for the marketing of the drug candidate Leuprogel®, which is currently in the approval process. These included the holding and preparation of meetings that were used to present the product to the appropriate medical specialists.

Both fields support the marketing of our technologies and products. The business development segment is also responsible for the licensing and protection of our technologies by means of patents. Intellectual property rights were extended by newly awarded patents and the purchase of additional licenses (p. 61). MediGene currently holds eleven granted or allowed patents in Germany and 32 patents in the United States. We have also registered patents for numerous discoveries resulting from our own research. We now have 28 patents pending in Germany, 46 in the United States and 52 internationally. We have licensed a number of technologies and products from partners.

As part of the settlement of the legal dispute with Loyola University in Chicago and MedImmune, Inc., the disputed property rights were assigned to Loyola. The company has thus averted the great uncertainty that a pending lawsuit involves. Under the settlement, a license agreement with Loyola University will become necessary if the CVLP tumor vaccine is subsequently marketed.

We have agreed on a new research cooperation with the University of Chicago for the further development of the HSV technology. MediGene has been given an option on exclusive global licenses for all of the new inventions that arise from the cooperation.

Negative EBITDA enlarged +50%

Earnings before interest, tax and depreciation (EBITDA) declined from -25,915 T€ to -38,885 T€. Major influencing factors were, firstly, the lower other operating income and, secondly, the higher costs involved in the further expansion of the company and the progress in research and development.

EBITDA by segment

in T€	2001	2002	Change
HPV-indications	-2,457	-7,176	192%
Oncology	-9,550	-12,926	35%
Cardiology	-5,747	-8,412	46%
Intersegment	-8,161	-10,371	27%
Total	-25,915	-38,885	50%

Lower amortization and depreciation -53%

Total amortization and depreciation fell by 53% to 1,312 T€. This decline is attributable primarily to the discontinuation of the periodic amortization of goodwill relating to MediGene, Inc. Since 2002 the continuous monthly amortization of goodwill was replaced by the periodic impairment testing in accordance with US-GAAP. This burdened the operating result to the tune of 1,845 T€ in 2001.

Depreciation*)

in T€	2001	2002	Change
of goodwill	1,845	0	-100%
of fixed assets incl. intangibles	651	1,031	58%
of capitalized leased items	277	281	1%
Total	2,773	1,312	-53%
Depreciation excluding goodwill	928	1,312	41%

*) Excluding the »In Process Research and Development« write-off amounting to 86,543 T€ that resulted from the acquisition of NeuroVir Therapeutics, Inc. (MediGene, Inc.). In accordance with the purchase method, it was recorded as in-process research and development (»IPR&D«) for the G207 and NV1020 projects acquired.

Adjusted for this amount, depreciation and amortization increased by 41% from 928 T€ to 1,312 T€, mainly as a result of the increase in fixed asset depreciation that corresponded to the growth in property, plant and equipment. In the previous reporting period 2001, this had increased to 4,217 T€ from its previous level of 2,070 T€ (2000).

The impairment test did not lead to any change in goodwill in 2002.

Negative EBIT enlarged +40%

Earnings before interest and taxes (EBIT) declined from -28,689 T€ to -40,197 T€.

EBIT by segments*)

in T€	2001	2002	Change
HPV-indications	-2,708	-7,453	175%
Oncology	-9,914	-13,401	35%
Cardiology	-5,907	-8,639	46%
Intersegment	-10,160	-10,704	5%
Total	-28,689	-40,197	40%

*) Excluding write-off »IPR&D«

Financial result declines -72%

The financial result, with a profit of 1,328 T€, was substantially lower than in the previous year (2001: 4,742 T€) as a result of lower interest rates and a reduced investment sum. In addition, the company incurred currency exchange losses amounting to 753 T€. The currency exchange losses correspond to a valuation allowance for U.S. dollar cash assets that was necessitated by the extraordinarily sharp fall in the price of the U.S. dollar vis-à-vis the euro. Interest expenses were incurred largely in the procurement of property, plant and equipment by means of leasing arrangements.

Financial result

in T€	2001	2002	Change
Interest income	4,039	2,179	-46%
Interest expense	-81	-98	21%
Disposal of investments	400	0	-100%
Foreign currency exchange gains/losses	384	-753	-296%
Total	4,742	1,328	-72%

Higher net loss for the year +62%

The progress in product development and the expansion of business activities have resulted in a net loss for the year of -38,870 T€ (2001: -23,947 T€, excluding one-time write-off in process research & development).

The net loss for 2002 for MediGene according to HGB amounted to -25,562 T€ (2001: -12,280 T€).

Reduced loss per share -65%

The actual net loss for the year per share (assuming a weighted average of 11,204,990 shares) was € -3.47 on the balance sheet date, and thus improved by € 6.57 from € -10.04 reported in the previous year. Adjusted for the »IPR&D« expenses, the net loss per share in 2001 was € -2.18. On the reporting date the net loss for the year with full dilution corresponded to the actual loss, since the conversion of common stock equivalents would counteract the dilution effect. The earnings per share reflect the increased R&D expenses that we incurred in advancing our clinical development portfolio.

Segment reports

The company's business activities were focused on the following segments of the drugs market: cardiology, oncology and HPV-indications. There are currently five drugs in clinical development, whilst one additional drug is going through the approval process. In 2002 we started one clinical trial (Polyphenon® E), completed two trials (NV1020, CVLP tumor vaccine) and discontinued the development of one drug candidate (Etomoxir). Clinical trials are currently being conducted for the drug candidate G207 and the rAAV tumor vaccine. The positions that cannot be clearly allocated to an individual segment are brought together in the intersegment. In August 2002 we decided to spin off our cardiology research activities.

HPV-indications

The HPV-indications segment comprises the CVLP technology and the clinical development projects Polyphenon® E and the CVLP tumor vaccine. The other operating income in the HPV-indications segment originated from the strategic cooperation with Schering. The subject matter of the cooperation agreement is the joint development of a tumor vaccine for the treatment of cervical carcinoma and its precursors.

HPV-indications

in T€	2001	2002	Change
Other operating income	4,797	1,713	-64%
Selling expenses	0	-21	–
R&D expenses	-7,254	-8,868	22%
EBITDA	-2,457	-7,176	192%
Depreciation	-250	-277	11%
EBIT	-2,708	-7,453	175%

HPV-indications – other operating income

in T€	2001	2002	Change
R&D payments received from partners	3,560	1,609	-55%
Milestone and license fee payments	1,227	0	-100%
Research grants	0	0	–
Other revenue	9	104	1,056%
Total	4,797	1,713	-64%

The R&D expenses in the HPV-indications segment increased by 22%. Higher costs were incurred primarily as a result of the commencement of the final Polyphenon® E trial. Polyphenon® E ointment is being developed for the treatment of benign tumors in the genital tract, so-called genital warts. The ointment is administered to the patients in three different dosages (10%, 15% and placebo) for up to 16 weeks. 960 patients are scheduled to take part in the trial. To ensure meaningful results, the trial is carried out at random and double-blinded. This means that the patients are allocated at random to different groups and the data are accessible to no one, with the exception of an independent controlling committee, during treatment.

The first clinical phase 1/2 trial for the CVLP tumor vaccine for the treatment of cervical carcinoma and its precursors was completed in the fourth quarter of 2002. The study results are expected in the first half of 2003. The clinical trial for the CVLP vaccine had started in the fourth quarter of 2000.

Cardiology

The cardiology segment focusses on the research of the causes of cardiac diseases and the treatment of these desorders.Our work is based on the Integrated Target Definition program (ITD). The drug candidate Etomoxir was undergoing a clinical phase 2 study for the treatment of congestive heart failure until April 2002. At this point in time the study was fully enrolled and 360 patients were included. In the second quarter, MediGene had announced the clinical phase 2 trial of Etomoxir was discontinued after side-effects in the form of higher liver readings had been observed in individual cases. In addition, the data from a prematurely terminated phase 2 trial of Etomoxir failed to produce the expected indications of its efficacy.

After termination of Etomoxir development project, the cardiological program no longer included a drug candidate in clinical development. For this reason, the management decided that it would make sense to focus MediGene's activities on the development of tumor therapies and to spin off the cardiological research program ITD with the support of investors. By the end of 2002, the negotiations with potential partners had reached an advanced stage.

The other operating income in the cardiology segment refers to grants for basic research in connection with the ITD program.

Cardiology

in T€	2001	2002	Change
Other operating income	229	112	-52%
Selling expenses	0	0	–
R&D expenses	-5,976	-8,524	43%
EBITDA	-5,747	-8,412	46%
Depreciation	-160	-227	42%
EBIT	-5,907	-8,639	46%

Cardiology – other operating income

in T€	2001	2002	Change
R&D payments received from partners	0	0	–
Milestone and license fee payments	0	0	–
Research grants	223	106	-52%
Other revenue	6	6	–
Total	229	112	-52%

The increase of 43% in R&D expenses resulted from, firstly, higher costs in connection with the clinical trial of Etomoxir, and secondly the expansion of the cardiology research activities. In the reporting period we successfully completed in cooperation with Evotec OAI the phase of targeted search for new active compounds as drug candidates for the treatment of heart diseases. The identified substances block the activity of a protein that is involved in the development of heart diseases. In making this step, the ITD program has closed the gap between revealing the causes of diseases and developing active compounds.

Oncology

The two technologies recombinant adeno-associated viruses and oncolytic herpes simplex viruses, together with the product candidates Leuprogel®, G207, NV1020 and the rAAV tumor vaccine, are combined in the oncology segment. Within the segment, other operating income is earned within the framework of a strategic cooperation with Aventis for the disease malignant melanoma.

Oncology

in T€	2001	2002	Change
Other operating income	2,394	1,640	-31%
Selling expenses	0	-222	–
R&D expenses	-11,944	-14,344	20%
EBITDA	**-9,550**	**-12,926**	**35%**
Depreciation	-364	-476	31%
EBIT	**-9,914**	**-13,401**	**35%**

Oncology – other operating income

in T€	2001	2002	Change
R&D payments from partners	1,372	1,455	6%
Milestone and license fee payments	1,023	102	-90%
Research grants	0	0	–
Other revenue	0	83	–
Total	**2,394**	**1,640**	**-31%**

The increase in R&D expenses in the oncology segment results from the expansion of our U.S. activities. At the same time, the expenditure on the projects G207 and NV1020, that were carried out by MediGene, Inc., was increased in accordance with their clinical progress.

In the oncology segment we are currently involved in four projects: Leuprogel® for the treatment of advanced prostate carcinoma, rAAV tumor vaccine for the treatment of malignant melanoma, G207 for the treatment of malignant brain tumors and NV1020 for the treatment of liver metastases.

In April 2001 we acquired the European marketing rights for Leuprogel® from the U.S. biotechnology company Atrix Laboratories, Inc. In the U.S., our partner Atrix has already received market approval for Leuprogel's one-month and three-month depot products from the U.S. public health authority FDA; both depot products were launched on the market by Atrix' U.S. marketing partner. MediGene submitted its application for marketing authorization for the one-month and three-month depot products to the European authorities on the basis of the Atrix study data. MediGene is planning to launch Leuprogel® on the market in 2003. The marketing should preferably take place within the framework of a co-marketing agreement. MediGene has started concrete negotiations with potential partners.

Following the successful completion of the phase 1b/2 trial for the cancer drug G207, MediGene started the clinical phase 2 trial for the product in the U.S. in the fourth quarter of 2001. The first findings are expected in 2003. In May 2001 the U.S. regulatory authority FDA granted G207 Orphan Drug Designation. The designation ensures MediGene exclusive marketing rights for G207 in the U.S. for seven years after its market approval by the FDA. MediGene will also be able to apply for special research grants, will receive tax credits for research and development expenses when market approval has been granted and will receive special assistance from the FDA in the development and approval process.

In September, MediGene reported promising results from the clinical phase 1/2 trial for the drug candidate NV1020 for the treatment of liver metastases. The trial investigated the safety and the maximum tolerated dosage of NV1020. The test results indicate that the dosages applied were quite tolerable. In addition,

virological studies have shown that NV1020 replicates in the tumor tissue, which is a precondition for its efficacy. With some patients, a decrease in the tumor marker CEA could be observed. CEA is an indicator for tumor growth. We are currently preparing a further clinical trial that is scheduled to begin in 2003.

The rAAV tumor vaccine for the treatment of malignant melanoma, which is being developed jointly with Aventis, is in phase 1 of clinical tests. The first results should be available in 2003.

Intellectual property

Patents granted or allowed

	HPV-Indic.	Oncology	Cardiology
Germany	0	8	3
USA	3	26	3

Patents pending

	HPV-Indic.	Oncology	Cardiology
Germany	9	10	9
USA	10	25	11
International	10	29	13

The number of patents granted or allowed declined in the HPV-segment (Germany -3, USA -2) and cardiology-segment (Germany -1). In January, MediGene reached an agreement in the legal dispute with Loyola University of Chicago and MedImmune, Inc. concerning particular property rights for the CVLP technology. Under the agreement, the disputed property rights were assigned to Loyola. The agreement stipulates that a license agreement with Loyola University will become necessary if the CVLP tumor vaccine is subsequently marketed. Irrespective of that, MediGene possesses patents for the protection of elements of this vaccine. The company also has a number of patents for other therapeutic and diagnostic applications in the field of cervical carcinoma. In addition to that, European and U.S. authorities granted seven new patents on our products and technologies respectively in 2002. Patent protection of our ideas is crucial in view of our strong competitors within the biotech industry.

Investments

Investment in tangible assets decreases -64%

Investment declined by 64% in the year under review. Investment in tangible assets, including software, amounted to 959 T€ (2001: 2,641 T€) and mainly served the procurement of laboratory equipment and information technology. 27% of this sum was invested in a liquidity saving manner by means of so-called capital lease agreements. Altogether, 41% of the investments in tangible assets was accounted for by MediGene, Inc.

Investment decreased by 38% in the cardiology segment (2002: 238 T€), 87% in HPV-indications (2002: 40 T€) and 85% in oncology (2002: 242 T€). Only the investment that cannot be assigned to specific segments increased; its growth of 35% was attributable to the expansion of the information technology infrastructure and the marketing and quality assurance segments. In overall terms, the investment was spread over a multiplicity of equipment. There were no noteworthy individual investments.

Assets positions

Equity ratio 89%

Property, plant and equipment and intangible assets decreased by 14% from 4,426 T€ to 3,821 T€. This reflects the decline in tangible assets by 13% to 3,686 T€ and the 35% decrease in intangible assets to 135 T€. The conversion of parts of the tangible assets from U.S. dollars into euros led to a decrease of -235 T€.

As at December 31, 2002, the book value of the capitalized leased objects as part of tangible assets decreased by 14% from 1,094 T€ to 944 T€. This resulted from the expiry of leasing agreements and the transfer of equipment to tangible assets. As at December, 31 2002, the impairment test did not lead to any change in the value of the goodwill. In the course of the acquisition of MediGene, Inc. in 2001, this had been capitalized in the fixed assets with a value of 11,071 T€. Following scheduled depreciation amounting to 1,845 T€ in 2001, goodwill of 9,226 T€ remained.

The long-term assets basically correspond to the shares in the U.S. company Atrix Laboratories, Inc. that were acquired within the framework of the Leuprogel® license agreement. The difficult situation on the world's stock markets and the weakness of the U.S. dollar meant that on the balance sheet date, the value of the Atrix shares held by MediGene had decreased from 5,464 T€ to 3,443 T€.

The reduction in current assets is accounted for largely by the decrease in the cash and cash equivalents that were used to finance the R&D activities. At the same time, we reduced our inventories by 14% to 492 T€ (2001: 575 T€). This resulted from disposals in connection with the shifting of activity in the cardiology segment from target seeking to the discovery of active compounds. Receivables increased by 207% to 1,027 T€ (2001: 334 T€). The main reason for the increase in reported receivables was an invoice sent to Aventis for the reimbursement of R&D expenses.

Net equity decreased by 41% in the period under review. MediGene financed the development of its products primarily with equity capital obtained as issue proceeds from the IPO on the Neuer Markt in 2000.

The level of loan capital remained largely unchanged, and its proportion of the balance sheet total increased. The equity ratio, which refers to the proportion of equity in the balance sheet total, decreased from 93% to 89%.

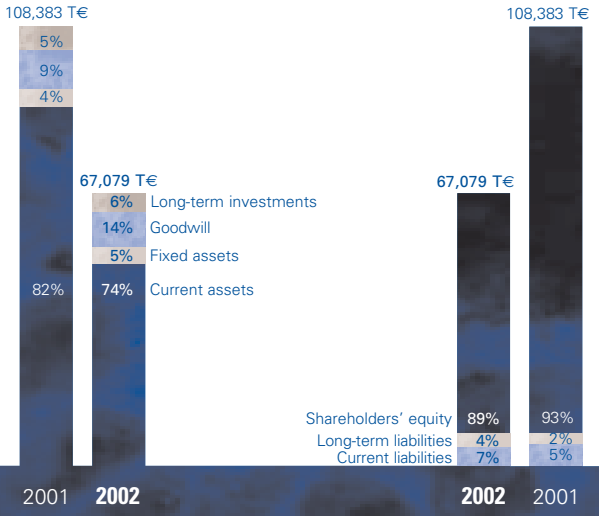
In comparison to the corresponding prior-year period, long-term liabilities increased by 25% to 2,993 T€. This trend resulted from the fact that long-term loans increased by 40% to 2,650 T€. The loan in question has been granted by Aventis as part of the joint rAAV project. MediGene is obliged to repay the loan as soon as the efficacy of the product candidate has been proven and the cooperation is continued. If Aventis discontinues the cooperation even though the efficacy test shows positive results, the company will not have to repay the loan. In case proof is not achieved the loan has to be repaid.

The liquidity cover ratio, calculated as the proportion of cash and cash equivalents and securities in the balance sheet total, was 71% at the balance date (previous year: 80%).

The working capital declined by 45% from 83,328 T€ to 45,579 T€ as a result of cashburn.

Current liabilities were reduced by 17% down to 4,651 T€, mainly because of the reduction of open invoices, which originated from clinical studies.

Balance sheet structure



Changes in assets and capital structure

in T€	Dec. 31, 2001	Dec. 31, 2002	Change
Assets			
Long-term investments	5,828	3,802	-35%
Goodwill	9,226	9,226	–
Fixed assets	4,426	3,821	-14%
Current assets	88,903	50,230	-44%
Total assets	108,383	67,079	-38%
Liabilities and shareholders' equity			
Shareholders' equity	100,406	59,435	-41%
Long-term liabilities	2,402	2,993	25%
Current liabilities	5,575	4,651	-17%
Total liabilities	108,383	67,079	-38%
Liquidity cover ratio	80%	71%	
Equity ratio	93%	89%	

The balance sheet total decreased by 38% to 67,079 T€.

Apart from a lease guarantee of 171 T€, there were no further contingencies as at December 31, 2002.

Over the next three years a total of 731 T€ will become due for capitalized leased objects, and a total of 2,539 T€ will become due for operating lease agreements over the next four years.

Financial position

Cash outflow increases +76%

The cash outflow from current business activities is derived indirectly from the net loss for the year. The 76% increase in cash outflow from current business activities, from 21,993 T€ in 2001 to 38,635 T€ in 2002, results primarily from the increase in the net loss compared with the previous year (without taking account of the »IPR&D« write-off).

The cash inflow from investment activity amounted to 5,296 T€ in 2002 (2001: 9,065 T€); this represents a decline of 42% compared with the previous year. The prevailing market interest rates discouraged any further purchases of fixed-interest securities in 2002; as a result, the only cash inflow from investment activity was generated by the sale of the 6,000 T€ that had been invested in 2001. In addition, the amount invested in property, plant and equipment decreased. In 2002 there was neither new investment nor disinvestment in shareholdings; in 2001, by contrast, the investment in MediGene, Inc., the acquisition of the Atrix shares and the sale of MediGenomix affected the cash flow from investing activities.

The cash inflow from financing activity showed a marked reduction of -66% compared with the previous year. This decrease resulted from lower payments by Aventis to cover lesser costs incurred by MediGene in carrying out the joint rAAV project: 729 T€ (in 2002) compared with 1,083 T€ (in 2001). These payments were made in the form of a loan by Aventis and were therefore not posted as other operating income. In addition, the payments in connection with the exercise of options decreased from 307 T€ (2001) to 46 T€ in 2002. The cash outflow from capital lease obligations remained almost unchanged at 463 T€, compared with 460 T€ in 2001.

In the year under review there was a net decline of 33,081 T€ in cash and cash equivalents, with exchange rate fluctuations contributing -55 T€ to this sum. The closing balance of cash and cash equivalents amounted to 47,762 T€, and thus 71% of the balance sheet total.

Besides the reported research loan and the finance leasing obligations, there were no financial debts and no unused or partially used credit lines as at the balance date. The balance of cash and cash equivalents corresponds to net liquidity.

Monthly net cashburn rate 3,257 T€

The change in the cash and cash equivalents and securities reported in the balance sheet resulted in a net cashburn rate (net cash consumption in the period under review) of 39,081 T€ (2001: 28,383 T€) and an average monthly figure of 3,257 T€ (2001: 2,365 T€) for the fiscal year 2002. MediGene currently uses the funds available for the development of the drug candidates.

Human resources

Group workforce increases +16%

MediGene employed 185 staff as at December 31, 2002, including 133 in Martinsried (2001: 123 staff) and 52 at MediGene, Inc. in the U.S. (2001: 37 staff). The workforce increased by 16% compared with the previous balance date. In contrast the average number of staff employed increased by 35% in 2002.

Payroll costs increased by 40% to 12,675 T€ (2001: 9,035 T€).

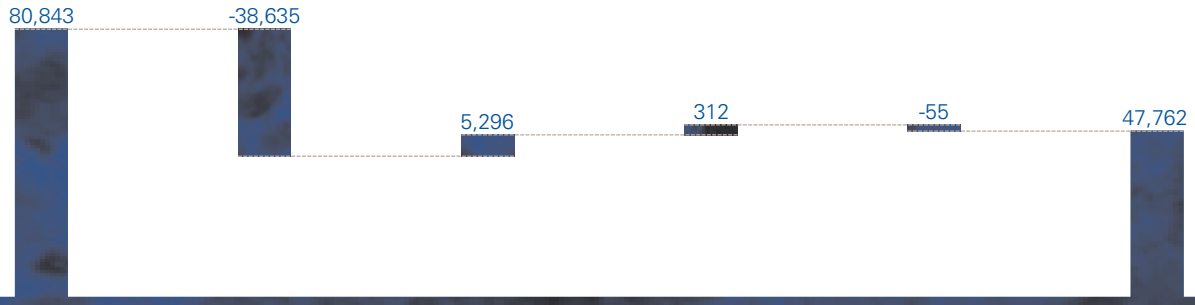
Employees by function

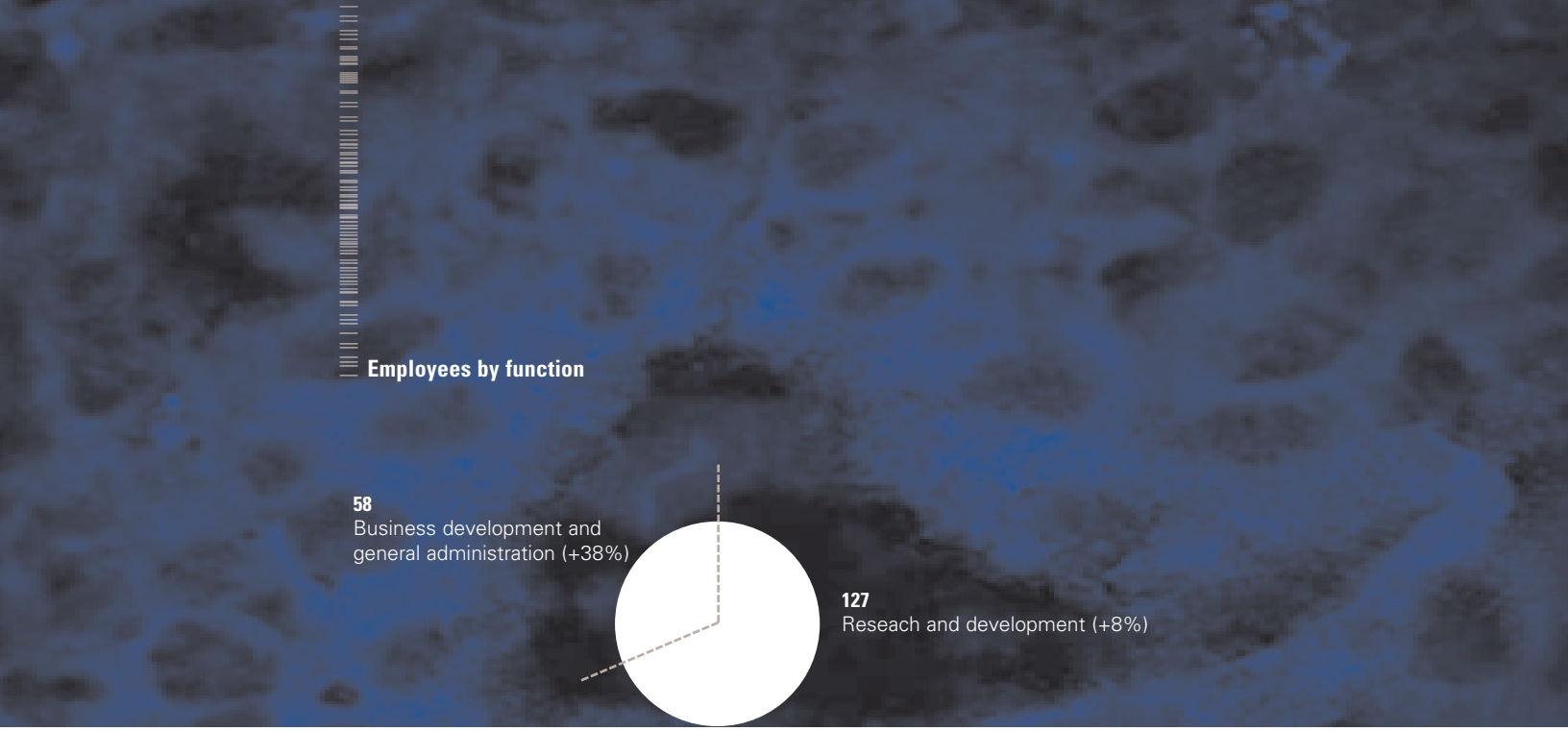
Number	2001	2002	Change
Business development/ General administration	42	58	38%
R&D	118	127	8%
Total	160	185	16%

Personnel expenses

Number	2001	2002	Change
Wages and salaries	7,760	10,639	37%
Social insurance	1,275	2,036	60%
of which for pension	*48*	*135*	*181%*
Total	9,035	12,675	40%

Development of cash and cash equivalents
in T€





Above-average growth at MediGene, Inc.

MediGene, Inc., which was acquired in 2001, has been integrated into the MediGene Group successfully and the subsidiary has been further expanded and its workforce increased. The payroll had increased by 41% (Group in total: 16%) as at the balance date. The goal is to press ahead strongly with the development of the projects G207 for the treatment of malignant brain tumors and NV1020 for the treatment of liver metastases. The growth of MediGene, Inc. was well in excess of the Group average.

Employees by region

Number	2001	2002	Change
MediGene AG, Martinsried	123	133	8%
MediGene, Inc., San Diego	37	52	41%
Total	160	185	16%

The results of a phase 1/2 trial of the drug candidate NV1020 were highly promising. At present, a clinical phase 1b/2 trial is being conducted for G207 and work is being done on the optimization of oncological herpes simplex virus technology. The scientists on both sides of the Atlantic regularly share their experiences: telephone conferences and project discussions are held at least once a week. Institutionalized teams and committees meet at regular intervals and make important development decisions. The staff at MediGene, Inc. are represented with equal rights on these committees. The management and project management of the U.S. subsidiary are involved in important Group decisions.

Procurement

Focal point: cost-effective production processes

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, how they develop plays a subordinate role in Medigene's cost structure. Developing low-cost production processes for our drug candidates, in contrast, is of major importance if the later procurement of ingredients is to be organized efficiently. For this reason MediGene is working intensively towards the development and optimization of the production process for the future drugs.

Service provider's requirements remain complex

The procurement of a wide range of services mainly occurs in 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 outsourcing of these activities ensures that we have the flexibility to react quickly to changes in our development portfolio. 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.

High standard of materials procurement

Always taking quality considerations into account, Medigene obtains a number of offers and places orders with the supplier with the best price/performance ratio. As MediGene is not committed to individual raw materials suppliers for its R&D work, we can minimize the risks of supply bottlenecks and quality problems and can optimize purchase prices. It is for these reasons that the procurement of laboratory material accounts for only a small percentage of total costs.

Environmental and health protection

Environmental and health protection take priority

Safety and environmental protection take priority at MediGene. We do not just fulfill statutory requirements and abide by regulations; we also try to keep our laboratory equipment state-of-the-art. To monitor our compliance with official requirements we have created the internal posts of radiation protection officer, biological safety officer, safety engineer, waste disposal officer and genetic research project manager. These posts are carried out by experienced staff, well-qualified for the tasks. The safety engineer was given additional training as required by the chemicals employers' liability insurance.

Our laboratory systems are carefully maintained and continuously serviced and expanded. MediGene ensures that process waste is carefully separated and either disposed of or reprocessed correctly and in compliance with specific requirements. External service providers help us in this task. In addition to danger analyses and training courses run by the safety engineer, regular medical checks are carried out to ensure safety at work for all of the laboratory staff. MediGene fulfills all of the major requirements in the fields of environmental and health protection and safety. It also has the necessary authorizations and approvals. Samples taken and random inspections made by various agencies have so far not led to any significant complaints.

Risk report

Industry and market risks

MediGene is subject to the typical industry and market risks inherent with the development of biopharmaceuticals products based on new technologies. Experience has shown that drugs take ten to fifteen 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 regulatory approvals necessary for development and marketing. 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.

Development risks

Before they can be commercialized, MediGene's product candidates must undergo the preclinical development phase and the individual clinical trials phases involving use on humans. These trials investigate the side-effects and efficacy of the drug before the application for marketing authorization can be submitted to the competent authority. When they have examined the application and the data that were submitted, the authority decides whether to grant marketing approval. The possibility exists that the product will not be approved on the grounds of the information that was submitted, or that further data are required before approval can be granted. Delays in recruiting patients can lead to higher costs and to delays in trials and with the market launch. The results of preclinical and clinical trials cannot be predicted, and the results of earlier trials cannot be used to make forecasts about results of future trials. 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

Numerous biotech companies besides MediGene have suffered considerable setbacks in advanced clinical trials, even after highly promising results in earlier phases. To minimize the risk of development failure, we carry out every development stage in accordance with the highest standards. In addition, we maintain close relationships with the regulatory authorities and subject all of our projects to an annual risk estimate. We achieve risk diversification by developing drugs that are based on different technologies. Six drug candidates based on different technologies are currently in various phases of clinical development. If MediGene does not succeed in keeping to its development plan or completing its clinical trials successfully, this could have detrimental consequences for its business, financial and earnings situation.

Marketing risks

The development and marketing of drugs is subject to strong competitive pressure. This applies particularly to the market for tumor therapeutics, on which MediGene's activities are focused. This market segment has so much potential that it is a focal point of the research activities of many leading drug companies and specialized biotech corporations. The drugs being developed 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 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.

Financing risks

Financing our company beyond 2003 largely depends on our ability to realize milestone payments from partnering our drugs and drug candidates. 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 which the management for the most part cannot influence. If the need arises, MediGene may not always be able to have sufficient funds on acceptable terms at its disposal. In that case it might have to reduce expenditure on R&D, production or marketing. That could have an adverse affect on 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. MediGene pursues intense investor relations to ensure that its finance sources and the financial conditions it enjoys are upheld and even improved.

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.

MediGene was involved in a 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 was the ownership of patents and the rights to patent applications for CVLP technology and associated claims for damages. At the beginning of 2003 MediGene came to an agreement in this dispute. Under the agreement, all of the damages claims by Loyola and MedImmune against MediGene will be dropped, MediGene's

appellate proceedings terminated and the disputed property rights assigned to Loyola. In future, MediGene and its partner Schering will be able to market the CVLP tumor vaccine that is being developed only by means of licenses. There is no guarantee that MediGene will succeed in signing a licensing agreement.

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. are subject to changes in the exchange rate, and result from a loss/gain in value of the euro against the dollar. The cost of buying the product will increase if the U.S. dollar/euro exchange rate deteriorates further. If the euro increases in value in relation to the U.S. dollar, however, assets denominated in U.S. dollars will have to be subjected to a valuation allowance.

Exchange rate risks could occur when Leuprogel® goes on the market, which is scheduled for 2003. The drug is imported from the U.S. and the invoices are issued in U.S. dollars. The drug is to be sold on the European market with revenues mainly in euros. Costs for the drug will increase if the euro decreases in value.

Other risks

The reimbursement of the costs of treatment with our drugs by the health insurance agencies, the dependency on important employees and cooperation partners or uncertainty about patents and technologies comprise additional risks for MediGene.

Overall risk further reduced by portfolio management strategy

Essentially, the overall risk faced by MediGene comprises the individual risks from clinical development, product marketing and corporate financing. Both the corporate success and the future existence of MediGene thus depend to a crucial extent on successful drug development, the marketing of our products and the situation on the capital market.

MediGene counters the basically high risk of failure for individual projects with a broad product portfolio based on different technologies and scientific approaches that are independent of each other. Although this reduces the risk of the company's further existence being threatened by individual product failures, such an outcome cannot be ruled out completely.

Comprehensive risk management system for more shareholder value

Management principles, organizational safety measures and controlling

Our corporate strategy is geared to maximizing shareholder value. This necessitates the continuous monitoring and improvement of our decision-making mechanisms. MediGene's management has implemented a comprehensive risk management system that adapts flexibly to new situations and is continuously 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. Committees are in charge of arriving at and making decisions on management topics. 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 unit is in charge of the 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 Executive Board. Internal audits in finance and administration support risk management by means of systematic, targeted and recognized procedures to evaluate and improve the effectiveness of risk management, supervision, control and processes relating to Corporate Governance.

Active portfolio management

MediGene's project portfolio is actively managed and includes the drawing up of development plans for individual projects. The meeting of project targets is regularly monitored by the Executive Board. The regular evaluation of individual projects with regard to their opportunities and risks mainly refer to the technical and financial risk, and includes considerations of the patent position, the scientific hypotheses of potential competitors, clinical development, approval conditions, process development and strategic fit in relation to the portfolio as a whole. The results are brought together in a feasibility study and an economic evaluation. 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 standpoint and offers advice based on the latest findings in research and clinical application.

MediGene 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. In addition, cooperation agreements with external scientific institutes, universities and other companies provide us with access to the latest technologies.

Quality assurance

MediGene's quality assurance system adheres to the requirements of both drugs legislation and the guidelines of »Good laboratory«, »Good clinical« and »Good manufacturing practice«. It ensures that in the development and manufacture of pharmaceuticals products defined standards are maintained and proof of which work has been undertaken in which way can be provided at any time. In the last fiscal year we strengthened our quality assurance activities and standardized many further procedures.

The risk management system was reviewed by the auditors.

Major events since the end of the year under review

Legal dispute with Loyola University and MedImmune settled

In January, 2003, MediGene reached an agreement in the legal dispute with Loyola University of Chicago and MedImmune, Inc. concerning certain property rights for CVLP technology. Under the agreement, all of the damages claims asserted by Loyola and MedImmune against MediGene will be dropped, MediGene's appellate procedure will be terminated and the disputed property rights will be assigned to Loyola. The CVLP technology is a procedure for producing virus-like particles that MediGene is using for the development of a tumor vaccine for the treatment of cervical carcinoma and its precursors. Under the agreement announced today, it will be necessary to conclude a license agreement with Loyola University if this vaccine is subsequently marketed. Irrespective of that, MediGene holds patents for the protection of elements of this vaccine.

MediGene's partner Atrix receives U.S. approval for prostate cancer drug

MediGene announced on February, 2003 that its partner Atrix Laboratories, Inc. has received approval from the U.S. Food and Drug Administration for Eligard® 30 mg (leuprolide acetate for injectable suspension)– also known as Leuprogel® four-month depot – for the treatment of advanced prostate cancer. MediGene owns the exclusive European marketing rights for Leuprogel®.

Outlook and forecast

The political situation in the Middle and Far East means that current forecasts for economic growth in the U.S. and Europe are beset with great uncertainty. The momentum of growth in both economic zones has already slackened during the past year. Economic growth was 2.4%, in the U.S., 0.8% in Europe and 0.2% in Germany. This year the experts are expecting gross domestic product to grow by 2.6% in the U.S. and 1.4% in Europe. In Germany, on the other hand, the economic trend is burdened by increases in taxes and social security contributions; the growth forecast is now only 0.9%, although the European Central Bank expects to see growth accelerating later in the year. The precondition for this, however, is that the factors that are currently contributing to the general uncertainty slowly lose their impact. If Germany is to achieve higher growth in the medium term, far-reaching reforms of the labor market and the social security system will be necessary.

Expected general economic situation and trend in the biopharmaceuticals sector

In its January report, the European Central Bank (ECB) assumes that 2003 will bring a gradual economic recovery and a decline in the inflation rate. The ECB believes that a slow increase of between 2.0% and 2.5% in gross domestic product in the latter part of the year is probable. For the U.S., experts are predicting average economic growth of 2.5%.

Drugs for the treatment of tumor diseases already make up a large part of the global drug market, and the biopharmaceuticals market is going to keep on growing: experts predict that the market volume for cancer drugs will increase continuously over the next decade. The market volume is estimated to reach 50 billion US$ by 2010; it already amounts to 20 billion US$. The low efficacy of currently available therapies and the increasing frequency of tumor diseases will lead to a continuous increase in demand for innovative drugs. The growth of the market, however, is going to be driven with particular force by innovative forms of therapy which, with their greater efficacy and less significant side effects, can bring substantial improvements in the treatment of patients. These can include tumor vaccines or oncolytic herpes simplex viruses as currently developed by MediGene.

Focus on drugs for the treatment of tumor diseases

In August 2002 we decided to focus our business activities on the development and marketing of tumor therapeutics. In the field of tumor therapies, MediGene has one of the broadest and most advanced drug portfolios in the European biotech industry.

In Leuprogel® for the treatment of prostate cancer, our first drug is currently going through the approval process. In 2002 we started the final clinical phase 3 trial for the Polyphenon® E ointment. In addition, four other drug candidates are in the early phases of clinical development. We have developed these drug candidates with the help of our own technology platforms »oncolytic herpes simplex viruses« (G207/brain tumor and NV1020/liver metastases), »chimeric virus-like particles« (CVLP tumor vaccine/cervical carcinoma and precursors) and »recombinant adeno-associated viruses« (rAAV tumor vaccine/skin cancer).

Marketing of Leuprogel® to begin

The approval and marketing of Leuprogel® in 2003 are two important milestones on the way to us becoming a fully integrated biopharmaceuticals company. With regard to Leuprogel®, we are confident of being able to achieve the market launch in 2003. We expanded our marketing activities and launched the premarketing activities for Leuprogel®. We will continue with these activities. In this context, forming a co-marketing partnership for Leuprogel® is

one of our major goals. The negotiations with potential partners that began in 2002 should be concluded successfully in 2003. This year we expect to post the first earnings from a marketing agreement.

For the four-month product of Leuprogel®, Atrix has already completed the clinical trials and achieved approval of the product in the U.S.; another product, the six-month formulation, is still undergoing clinical tests. MediGene has the option of acquiring European marketing licenses for both products.

Analysts estimate that Leuprogel has maximum annual sales potential of 50 million €, which could be achieved three to five years after its market launch. Last year, sales of around 557 million € were generated with comparable rival products on the five largest European markets. In a marketing partnership MediGene will receive a share of the earnings from Leuprogel®.

Leuprogel® has been developed by Atrix Laboratories, Inc., a U.S. company. Atrix will receive license fees and payments for certain clinical, regulatory and sales milestones. In addition, Atrix will obtain royalty payments based on MediGene's sales of the Leuprogel® products and will manufacture Leuprogel® for MediGene.

Progress in the clinical development of our drug candidates

The concluding phase 3 clinical trial of our Polyphenon® E ointment started in September 2002. In order to reduce the expenditure in 2003, the U.S. branch will proceed more slowly than originally planned. In case the trial is successful, we expect to submit the marketing authorization application in 2005, and in case we receive marketing authorization, the estimated product launch will be at the end of 2006 (previous estimate: 2005). We intend to market Polyphenon® E within the framework of a strategic partnership; we have already held preliminary talks with potential partners. Analysts estimate that the ointment has annual sales potential of up to 50 million €.

The drug candidates G207 and NV1020 are being developed by our subsidiary MediGene, Inc. in the U.S. The phase 1b/2 trial for G207 is scheduled to end this year, and we expect that a phase 1b/2 trial for NV1020 will begin in 2003.

This year important milestones were planned in the projects that we are conducting in cooperation with our partners Schering (CVLP tumor vaccine) and Aventis (rAAV tumor vaccine). The results of the CVLP trial that are expected in the first half of 2003 will form the basis for the further development of the CVLP tumor vaccine. We expect the clinical phase 1/2 trial for the rAAV tumor vaccine to be concluded in 2003.

Strengthening the product portfolio

To increase our chances of sustained growth, we intend to round off our technology and product portfolio still further. During the forthcoming years, licensing and, where appropriate, mergers and acquisitions will represent important strategic options for the supplementation of our pipeline. In line with the international consolidation process, we are going to intensify our efforts targeted at completing our portfolio with new, high-quality products and technologies. Active portfolio management also involves periodical cost-effectiveness reviews and setting up chance-risk profiles of our products. In this regard, also the termination of individual projects may prove to be beneficial for the entire portfolio.

Loss reduced

In 2003 we expect the net loss for the year to decrease to around 30 million €. This forecast is based on the assumption that we are going to generate our first earnings from the marketing of Leuprogel®. At the same time, the spin-off of cardiology research should result in significant savings; we are expecting R&D expenses to moderatly increase in the oncology and HPV-indications segments.

R&D projects – reached objectives in 2002

HPV-indications		
Polyphenon® E	Second phase 3 started	√ (started with a delay)
CVLP vaccine	Results from phase 1/2 study	Results available in the first half 2003
Oncology		
Leuprogel®	Marketing Authorization Application submitted	√
G207	Phase 1b/2 study in progress	√
NV1020	Results from phase 1/2 study	√
rAAV vaccine	Phase 1/2 study in progress	√

R&D projects – planned status as of Dec., 2003

HPV-indications	
Polyphenon® E	Second phase 3 trial in progress
CVLP vaccine	Results from clinical phase 1/2 study
Oncology	
Leuprogel®	Approval and market launch in Germany
G207	Results from clinical phase 1b/2 study
NV1020	Start of clinical phase 1b/2 study
rAAV vaccine	Results from clinical phase 1/2 study

R&D remains the focal point

No major investments in property, plant and equipment are planned for 2003. The research and development expenses remain the largest cost factor.

Selective hiring

The clinical development and quality assurance fields are to be strengthened with few specific new appointments. In fiscal year 2003 we expect the average staff numbers to decline from an average of 176 in 2002 to 160 employees. Main reason for the reduction is the spin-off of our cardiological activities.

Future procurement

We are not expecting any fundamental changes in the procurement field in 2003.

Future corporate legal structure and organization/administration

MediGene assumes that the cardiology spin-off will be completed in 2003. Legal changes in the corporate structure are not planned.

Environmental protection beyond the call of duty

The measures that have already been taken will be pursued further. In the future, MediGene will continue to practice environmental protection well beyond the statutory requirements.

Residual dividend distribution policy

MediGene adheres to the concept of residual dividend distribution: dividends should always be paid when the 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. Accordingly, the funds to be distributed as dividends are those that, given the number of product developments and known profitability criteria, cannot be put to use in the company in the interests 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, which means that a dividend is not likely to be distributed for some time.

Consolidated income statements

of MediGene AG for the periods from January 1 to December 31, 2002 and 2001

in T€	Notes No.	2001	2002
1. Total other operating income	**(17)**	**7,493**	**3,537**
2. Selling expenses	(18)	-921	-1,677
3. General and administrative expenses	(19)	-4,815	-5,500
4. Research and development expenses		-27,672	-35,245
5. Amortization of goodwill	(22)	-1,845	0
6. Depreciation		-928	-1,312
7. Operating loss before write-off »IPR&D«		**-28,689**	**-40,197**
8. Write-off »IPR&D«	(23)	-86,543	0
9. Operating loss		**-115,232**	**-40,197**
10. Interest income and expenditures	(24)	3,958	2,081
11. Disposal of investments		400	0
12. Foreign currency exchange gains/losses		384	-753
13. Result before income tax		**-110,490**	**-38,870**
14. Tax	(25)	0	0
15. Net loss		**-110,490**	**-38,870**
Per share data in €:			
Basic and diluted net loss		-10.04	-3.47
Weighted average number of shares outstanding		11,003,245	11,204,990

The number of shares used in calculating the diluted net loss per share is the same as calculating the basic net loss per share without consideration of potential dilution since conversion of common stock equivalents would have an anti-dilutive effect. The number of potentially dilutive shares related to options and convertible bonds that could dilute basic earnings per share in the future was 564,817 in 2001 and 722,955 in 2002.

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

Consolidated balance sheet

of MediGene AG as of December 31, 2002 and 2001

Assets

in T€	Notes No.	2001	2002
A. Current assets			
I. Cash and cash equivalents	(26)	80,843	47,762
II. Short-term investments/marketable securities		6,000	0
III. Accounts receivable	(27)	334	1,027
IV. Inventories	(28)	575	492
V. Prepaid expenses and other current assets	(29)	1,151	949
Total current assets		**88,903**	**50,230**
B. Long-term assets			
I. Property, plant & equipment	(30)	4,217	3,686
II. Intangible assets	(30)	209	135
III. Goodwill		9,226	9,226
IV. Investments	(31)	5,464	3,443
V. Loans	(32)	221	187
VI. Other assets		143	172
Total long-term assets		**19,480**	**16,849**
Total assets		**108,383**	**67,079**

US-GAAP
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Totals may vary due to rounding

Liabilities and shareholders' equity

in T€	Notes No.	2001	2002
A. Current liabilities	(33)		
I. Current portion of capital lease obligation		443	401
II. Short-term debt and current portion of long-term debt		25	0
III. Trade accounts payable		2,500	1,128
IV. Accrued expenses	(34)	2,007	2,526
V. Deferred income	(35)	0	103
VI. Other current liabilities		600	493
Total current liabilities		**5,575**	**4,651**
B. Long-term liabilities	(33)		
I. Long-term debt less current portion		1,896	2,650
II. Capital lease obligation less current portion		442	277
III. Pension accrual	(33)	30	32
IV. Other long-term liabilities		34	34
Total long-term liabilities		**2,402**	**2,993**
C. Shareholders' equity			
I. Share capital	(36)	11,199	11,206
Number of shares issued and outstanding December 31, 2001: 11,198,637 December 31, 2002: 11,206,205			
II. Additional paid-in capital		217,995	218,142
III. Accumulated deficit		-130,012	-168,882
IV. Accumulated other comprehensive income		1,224	-1,031
Total shareholders' equity		**100,406**	**59,435**
Total liabilities and shareholders' equity		**108,383**	**67,079**

Consolidated cash flow statements

of MediGene AG for the periods from January 1 to December 31, 2002 and 2001

in T€	2001	2002
Cash flow from operating activities		
Net loss	-110,490	-38,870
Adjustments:		
Write-off »IPR&D«	86,543	0
APB 25 expense on new options/bonds	254	108
Profit from sale of MediGenomix	-400	0
Write-off of premium on purchase of Atrix shares	740	0
Depreciation	2,774	1,312
Losses on sales of property, plant & equipment	22	18
Realized holding losses on securities	80	0
Changes in:		
Inventories	-166	83
Other assets and prepaid expenses	3,731	-487
Trade accounts payable	49	-1,372
Accruals	-1,182	575
Other liabilities and deferred income	-3,947	-2
Net cash used by operating activities	**-21,993**	**-38,635**
Cash flow from investing activities		
Purchases of property, plant & equipment	-2,119	-705
Sales of property, plant & equipment	0	1
Net cash investment in NeuroVir Therapeutics, Inc.	-1,145	0
Purchase of Atrix shares	-4,438	0
Sale of MediGenomix	400	0
Purchase of securities	-77,644	0
Disposal of securities	94,011	6,000
Net cash from investing activities	**9,065**	**5,296**
Cash flow from financing activities		
Proceeds from stock options	307	46
Repayments of/Proceeds from loans	1,083	729
Principal payments under finance lease obligations	-460	-463
Net cash from financing activities	**930**	**312**
Currency translation	-63	-55
Decrease in cash and cash equivalents	**-12,060**	**-33,081**
Cash and cash equivalents at beginning of period	92,903	80,843
Cash and cash equivalents at end of period	**80,843**	**47,762**

Supplementary schedule of non-cash financing activities:
In 2001, a total of 996,631 shares were issued to the value of 90,195 T€, for the acquisition of NeuroVir Therapeutics, Inc. Capital lease obligations of 255 T€ incurred in 2002 (2001: 466 T€) when the company entered into leases for new equipment.

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

Consolidated changes in shareholders' equity

of MediGene AG for the periods from January 1 to December 31, 2002 and 2001

	Shares	Share capital	Capital reserves	Accumulated losses	Other comprehensive income	Total shareholders' equity
	Number	T€	T€	T€	T€	T€
Balance January 1, 2001	**10,106,722**	**10,107**	**128,331**	**-19,522**	**-123**	**118,793**
Net loss 2001				-110,490		-110,490
Sale of securities					123	123
Unrealized profit from Atrix shares					1,766	1,766
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**
Net loss 2002				-38,870		-38,870
Unrealized losses from Atrix shares					-2,022	-2,022
Currency translation adjustments					-233	-233
Comprehensive income						**-41,125**
Stock options exercised	7,568	7	39			46
APB No. 25 Expenses on new options/bonds			108			108
Balance December 31, 2002	**11,206,205**	**11,206**	**218,142**	**-168,882**	**-1,031**	**59,435**

US-GAAP

The accompanying notes are an intregal part of the consolidated financial statements.

Totals may vary due to rounding

Consolidated changes in fixed assets

of MediGene AG for the period from January 1 to December 31, 2002

in T€	January 1, 2002	Currency translation adjustments	Addition	Sales value Disposal	Reduction from market valuation	Take over leasing	December 31, 2002
Fixed assets							
Property, plant & equipment*	6,945	-380	959	-227	0		7,297
Intangible assets	393	-60	0	0	0		333
	7,337	**-440**	**959**	**-227**	**0**		**7,630**
Goodwill	**11,071**	**0**	**0**	**0**	**0**		**11,071**
Investments	**5,464**	**0**	**0**	**0**	**-2,021**		**3,443**
Total	**23,871**	**-440**	**959**	**-227**	**-2,021**		**22,144**
* thereof leasing:	1,465		255			-311	1,409

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

	Depreciation					Book value	
January 1, 2002	Currency translation adjustments	Addition	Disposal	Take over leasing	December 31, 2002	December 31, 2002	January 1, 2002
2,727	-172	1,265	-209		3,611	3,686	4,217
184	-33	47	0		198	135	209
2,911	**-205**	**1,312**	**-209**		**3,809**	**3,821**	**4,426**
1,845	**0**	**0**	**0**		**1,845**	**9,226**	**9,226**
0	**0**	**0**	**0**		**0**	**3,443**	**5,464**
4,756	**-205**	**1,312**	**-209**		**5,654**	**16,490**	**19,117**
371		281		-187	465	944	1,094

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 with capital stock of 26 T€. In 1996 the company was transformed into a stock corporation. The company has its head office at Lochhamer Straße 11, 82152 Martinsried, Germany. MediGene is registered in the commercial register at Munich Local Court (Amtsgericht) under the number HRB 115761. The company has a fully-owned subsidiary, MediGene, Inc., based in San Diego, USA. The purpose of the company is to research and develop, and then market, novel drugs for the treatment of cardiac and tumor diseases using molecular biological techniques.

B) Statutory accounting requirements

These consolidated annual financial statements were drawn up in accordance with the 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 comprise the reporting entity have used uniform accounting and valuation methods.

The 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, these financial statements should be regarded as no more than information to supplement the consolidated financial statements. Individual financial statements for MediGene AG will be drawn up separately and filed in accordance with the German HGB.

The currency used in the 2002 financial statements is the euro (€) or EUR '000 (T€) written in the German style. The functional currency of MediGene, Inc. was the U.S. dollar (US$).

In drawing up the consolidated annual financial statements in accordance with 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

Due to a change in the reporting of currency translation adjustments for fixed assets in the MediGene, Inc. cash flow statement, the figures for the comparative period of 2001 were converted into the new reporting format. The items affected are »Purchases of property, plant & equipment« and »Currency translation«, which were reduced and increased respectively by 56 T€ for fiscal 2001. In addition, the losses from the sale of property, plant and equipment, amounting to 22 T€, were reported under cash used by operating activities for the first time and not, as before, under cash from investing activities; as a result, the figures for the year diverge from those of the annual report published for 2001.

Apart from the changes specified here and the rules on goodwill amortization that were applied for the first time in 2002 and will be explained below, all of the previous methods and principles continued to be applied.

D) Consolidation

In addition to MediGene AG, Martinsried, only the wholly-owned subsidiary MediGene, Inc. (formerly NeuroVir Therapeutics, Inc.), San Diego, was included in the reporting entity from March 1, 2001. As at December 31, 2002, MediGene AG owned no other stakes in affiliated companies, associated companies or partnerships. All intra-group receivables and payables, expenditure and income were eliminated. The capital consolidation was carried out using

the purchase method. Since MediGene, Inc. is the only company affiliated to MediGene AG, no mention of other equity holdings is made in the consolidated financial statements.

On June 2, 2000, MediGene acquired 750,000 shares in NeuroVir Therapeutics, Inc. for a purchase price of 3 million US$. This stake represented approx. 10% of all of the NeuroVir shares that were issued and in circulation. On November 9, 2000, MediGene announced the merger agreement 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 January 12, 2001. The capital increase for the acquisition of NeuroVir was entered in the commercial 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 a total of 996,631 of its own registered shares for all other outstanding shares, options and share certificates in NeuroVir held or taken up before the acquisition. Ten percent of these shares are held in trust as 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. This corresponds to the market price on November 9, 2000, the day on which the deal was announced.

The total purchase price was assigned to various items in the profit and loss account and the balance sheet in accordance with 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 NeuroVir's tangible and intangible assets less liabilities is seen as goodwill (listed here as the sum of goodwill company and goodwill work force). In 2001, this goodwill was written off against the operating result from March to December. Since January 2002 the new provisions of SFAS No. 141 and SFAS No. 142 have been applied (cf. also Note (22), »Amortization of Goodwill«). The amortization was based on an estimated useful life of five years. Current research and development expenses were posted as expenditure in the profit and loss statement for 2001 and 2002. Neither the size and organization of NeuroVir nor its existing project management system required any accruals for restructuring measures.

Consolidated company

	MediGene, Inc.
Registered office	San Diego, USA
Shareholding in %	100
Equity at Dec. 31, 2002 T€	1,691
Net loss for the year 2002 T€	-13,297

The application of SFAS No. 141 and No. 142 had the following effects in 2002:

Net loss for the year

in T€	2001	2002
Net loss for the year MediGene AG	-110,490	-38,870
Adjustment: Write-off »IPR&D«	86,543	0
Adjustment: Amortization of goodwill	1,845	0
Adjusted net loss for the year	-22,102	-38,870

E) Principles of accounting and valuation

(1) Foreign currency translation

SFAS No. 52 »Foreign Currency Translation« was applied: in consolidating the U.S. subsidiary, which prepares its accounts in US$, balance sheet items are always 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. For consolidation purposes, income and expenses are translated into the reporting currency at the average monthly rate of exchange. Consolidation is carried out monthly. Any resulting conversion differences are included under shareholders' equity as »other comprehensive income«. Differences between the foreign currency translation in the balance sheet and the translation from the previous year are also reported neutral to earnings under other comprehensive income. Receivables and payables 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 date of transaction. Foreign currency exchange gains and losses are listed as such in the profit and loss statement. The following exchange rates applied in 2002:

US$/€ exchange rates in 2002

Transaction day rates		Monthly average rates	
January, 31	0.8630	January	0.8828
February, 28	0.8653	February	0.8697
March, 31	0.8716	March	0.8759
April, 30	0.9011	April	0.8859
May, 31	0.9388	May	0.9175
June, 30	0.9973	June	0.9560
July, 31	0.9783	July	0.9920
August, 31	0.9856	August	0.9773
September, 30	0.9846	September	0.9804
October, 31	0.9860	October	0.9806
November, 30	0.9930	November	1.0014
December, 31	1.0415	December	1.0164

The strong trend shown by the euro in comparison to the U.S. dollar in 2002 had a clear impact on the foreign currency exchange losses (-753 T€) and the currency translation adjustments for fixed assets amounting to -235 T€.

(2) Presentation of income

Funding from research cooperations is booked as income when the contractually agreed targets or milestones are reached. Contractually agreed payments and fixed-date payments that do not depend on 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 progress. So-called »upfront payments« (one-off) made by pharmaceuticals partner when a new contract is signed are, as per US-GAAP, spread over the entire estimated contract period. In that process, the cash flow increases by the full amount received in payment, but the other operating income is only recognized pro-rata over the product development period or the duration of the contract. In 2002 no contracts to which this provision would apply were signed. Payments made for unsuccessful research work will not be refunded. Grants received are posted 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 with an original term of up to three months. 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 or current assets are classified as available for sale in accordance with 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 shareholders' equity and are not permanent in character. If there is a permanent value impairment, amortization would be carried out. Deferred taxes were not taken into account.

(6) Inventories
Inventories are booked at cost on the FIFO (first-in-first-out) principle. All inventories are raw materials used in research and development. These are mainly chemicals, materials and DNA chips used in the laboratory. All of the inventories are used up very rapidly (< 1 month), so the cost of purchase generally corresponds to the current market price. So far no inventories have been self-manufactured.

(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 posted 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

Since January 1, 2002, the provisions of the Financial Accounting Standards Board SFAS No. 141 »Business Combinations« and SFAS No. 142 »Goodwill and Other Intangible Assets« have been applied. The scheduled amortizations of the acquired goodwill over an estimated useful life thus no longer applied. Instead, the value of the goodwill was examined within the framework of an annual project valuation. In future this valuation will be carried out annually, and also during the course of the year if there are signs of a reduction in value. If such an examination reveals a reduction in value, non-scheduled amortization must be carried out. The impairment test is based on a comparison of the current book value with the result of the project valuation in the form of a net present value (NPV) calculation. In the process, the net present value (capital value) of an investment is ascertained on the basis of a discount factor for a series of periodic payments. Further details on the impact of this change in 2002 can be found in the notes to the amortization (22).

Details on the development of fixed assets can be found in the fixed asset movement schedule (p. 78/79).

(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 also over the term of the contract, whichever 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 are incurred. When property, plant and equipment are sold, their purchase costs and resultant 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.

Fixed assets with costs of purchase of up to € 410 are classified as low value fixed assets. These low value assets are not allocated to fixed assets, but are reported in their entirety under »cost of materials«.

Details of changes in fixed assets are to be found in the fixed asset statement (p. 78/79).

(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 capitalized in this way are reported at cost of purchase and, like other tangible assets in the company, written off using the straight-line method over their estimated useful life. In addition, the company rents offices and laboratories, office equipment, laboratory devices and vehicles that count as operating leases. These operating lease payments are expensed 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 HVB Leasing and General Electric Capital Corporation. MediGene's role is strictly that of a lessee.

(11) Liabilities

Trade payables are valued at their redemption cost. Financial liabilities consist mainly of a research and development loan and capital lease obligations.

(12) Accruals

Pension and other accruals were set up.

The pension commitment 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) Deferred taxes

The deferred taxes are based on temporary differences. These result from time differences in the reporting of results under commercial law and under tax law and different assigned values in the commercial balance sheet and the tax balance sheet. The taxes to be deferred are calculated using the liability method. The future tax rate is applied. A valuation allowance on the calculated deferred tax assets has to be taken up.

(15) 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). The 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 purchased intangible assets – including goodwill – to be shown in the balance sheet. The HGB leaves an option to capitalize goodwill.

According to US-GAAP goodwill must not be amortized on schedule, whereas HGB constitutes an obligation to depreciate.

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 a capital lease. The German Commercial Code (HGB) does not specify how to handle leasing transactions in the balance sheet. The commercial 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. Many criteria need to be considered to clarify once and for all who should report it in his balance sheet. In practice, leasing agreements are generally 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 the mandatory capitalization of deferred tax assets regardless of their origins and the mandatory accrual of deferred tax liabilities. Deferred tax assets are checked to see how likely they are to be realized and, if necessary, adjusted downwards 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. According to the principles of German commercial law, assets and debts must 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 apply 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. Not only temporary fluctuations must be posted to the profit and loss statement. Germany's HGB requires the strict lowest-of-cost-or-market principle to be applied to securities held as current assets. According to this principle, unrealized losses in value must 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 the annual financial statements

US-GAAP classifies balance sheet items as »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 makes a distinction 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 consolidated subsidiary, 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 do not make economic sense for MediGene.

(16) New accounting principles

In 2002 the Financial Accounting Standards Board (FASB) issued SFAS No. 143 »Accounting for obligations associated with the retirement of long-lived assets« and »No. 146 »Accounting for costs associated with exit or disposal activities«, No. 147 »Acquisitions of certain financial institutions«, No. 148 »Accounting for stock-based compensation-transaction and disclosure – an amendment of SFAS 123«, FIN 45 »Guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others« and FIN 46 »Consolidation of variable interest entities«. For the company, these statements are effective for the financial year commencing January 1, 2003. Management does not expect that these statements will have a significant impact on the results of operations or financial position of the company.

F) Notes on the income statement

(17) Other operating income

in T€	2001	2002	Change
R&D funding from partnerships	4,932	3,064	-38%
Milestone and license fee payments from partnerships	2,250	102	-95%
Grants	278	161	- 42%
Other	33	210	536%
Total	7,493	3,537	-53%

(18) Selling expenses

No sales activities are in progress yet, so selling expenses include only business development and pre-marketing expenditure; these include personnel expenses, consultants' fees, market studies, cost of materials and other services.

(19) General and administrative expenses

This item mainly includes personnel expenses, expenditure in connection with capital market communications and press work, plus administration-related and general services. Other operating expenses are not included.

(20) Personnel expenses

The following personnel expenses are posted to expense items in the profit and loss statement:

Personnel expenses

in T€	2001	2002	Change
Wages and salaries	7,760	10,639	37%
Social insurance	1,275	2,036	60%
of which for pension	*48*	*135*	*181%*
Total	9,035	12,675	40%

Personnel expenses by segment

in T€	2001	2002	Change
HPV-indications	1,065	1,363	28%
Oncology	3,085	4,029	31%
Cardiology	1,071	1,430	34%
Intersegment	3,814	5,853	53%
Total	9,035	12,675	40%

Employees by function

Number	Dec. 31, 2001	Dec. 31, 2002	Change
R&D	118	127	8%
Business development/ General administration	42	58	38%
Total	160	185	16%

The rise in personnel expenses can be attributed to the increase in the average number of staff employed during the year. On average, 176 staff were employed in 2002, 49 of them at MediGene, Inc. That represents an increase of 35% compared with the previous year, when the average number employed was 130. These figures include members of the Executive Board (2002: 3; 2001: 2). All employees are salaried staff.

The members of the Supervisory Board and the Executive Board are listed under Note (45). Executive Board members' emoluments in the last fiscal year totaled 569 T€ (2001: 424 T€). Payments to the Board members contain fixed and variable elements and make adequate provision for performance incentives to promote long-term growth in the value of the company. The criteria for the variable remuneration components are determined in advance each year. The long-term remuneration components include stock option and convertible bond programs that are geared towards the development of the share price and the lasting success of the company and for which no subsequent change in the earnings goals may be made. In 2002, the remuneration of the Supervisory Board totaled 90 T€ (2001: 52 T€). The total remuneration of the Supervisory Board members includes a fixed cash amount and a stake in the convertible bond program of MediGene AG. The consideration of the scope of activities of the Supervisory Board members encompassed the Chairman and Deputy Chairman. For details of subscription rights held by members of the Supervisory Board and the Executive Board and by employees, see Note (36), »Shareholders' equity«. A loan was granted to a senior executive of MediGene, Inc. Details on this can be found under Note (32), »Loans«.

(21) Cost of materials

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

in T€	2001	2002	Change
Cost of raw, auxiliary and operating materials	1,271	1,645	29%
Cost of services bought	9,474	16,773	77%
Total	10,745	18,418	71%

The cost of raw, auxiliary and operating materials comprises mainly laboratory materials and chemicals. The purchased services in 2002 comprise the conduct of clinical studies (8,603 T€), approval for marketing authorization (638 T€), production services (2,848 T€) and preclinical development services (4,684 T€).

(22) Amortization of goodwill

Since January 1, 2002, SFAS No. 141 »Business combinations« and SFAS No. 142 »Goodwill and other intangible assets« have been applied. The application of these regulations meant that for 2002, there was no scheduled amortization of the acquired goodwill which would have amounted to 2,214 T€. This calculation is based on an original useful life of five years. Instead of the scheduled depreciation, an impairment test was carried out. This was based on a net present value calculation (NPV) for the development projects implemented at MediGene, Inc. The result was a markedly higher amount than the goodwill reported in the balance sheet, which meant that a write-off of goodwill was unnecessary.

(23) 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«.

(24) Financial results

in T€	2001	2002	Change
Interest income	4,039	2,179	-46%
Interest expenditure	-81	-98	21%
Disposal of investments	400	0	-100%
Foreign currency exchange gains/losses	384	-753	-296%
Total	4,742	1,328	-72%

(25) Income tax

Deferred tax assets are as follows:

in T€	MediGene AG Germany 2001	MediGene, Inc. USA 2001	MediGene AG Germany 2002	MediGene, Inc. USA 2002
Deferred tax assets on net losses	16,189	10,560	24,743	13,942
Deferred tax assets/liabilities on temporary timing differences	110	-182	21	-155
Valuation allowance	-16,299	-10,378	-24,764	-13,787
Deffered tax assets, net	0	0	0	0

Since the company's medium-term budget does not anticipate any profits, deferred tax assets were written down to zero. Depending on the future earnings situation the present estimation may change, necessitating lower valuation allowances. 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 2003 and 2021 depending on when they were incurred.

G) Note on earnings per share

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

in T€	2001	2002
Operating loss before write-off »IPR&D«	-23,947	-38,870
Write-off »IPR&D«	-86,543	0
Net loss	-110,490	-38,870
Weighted average number of shares	11,003,245	11,204,990
Net loss per share	-10.04	-3.47
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

(26) Cash

in T€	2001	2002	Change
Cash and cash equivalents < 3 months	80,843	47,762	-41%
Marketable securities < 3 months	6,000	0	-100%
Total	86,843	47,762	-45%

Total proceeds from sales of securities totaled 6,000 T€ in 2002 (2001: 94,011 T€).

(27) Receivables

As in 2001, no allowances for doubtful accounts receivable were made in the year under review, 2002. All receivables are due within three 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 inventory items by the time the financial statements were drawn up. This information is of no consequence for the statement on the company's financial and business situation. No valuation allowances for inventories were provided out. Inventories have been accounted for using the FIFO method.

(29) Prepaid expenses and other current assets

Other assets
with a term < 1 year

in T€	2001	2002	Change
Tax refund claims	86	68	-21%
VAT refund claims	323	117	-64%
Grants	83	55	-34%
Cooperation agreements	85	2	-98%
Interest	109	72	-34%
Advances	78	124	59%
Total	765	438	-43%

Prepaid expenses
with a term < 1 year

in T€	2001	2002	Change
Insurance services	40	23	-41%
Use of software and data	185	7	-96%
Research services	75	154	105%
Clinical trials	26	0	-100%
Maintenance	10	78	680%
Conference fees and travel	0	45	–
Fees Designated Sponsor	0	20	–
Licenses	0	59	–
Other	50	125	150%
Total	387	511	32%
Balance sheet item	1,151	949	-18%

(30) Intangible assets and property, plant and equipment

The detailed composition and development of the intangible assets and property, plant and equipment can be found in the fixed asset statement (p. 78/79).

(31) Investments

The financial assets as at December 31, 2002 comprised the following items:

in T€	Acquisition costs	Market value Dec. 31, 2002	Unrealized acc. losses Dec. 31, 2002
Investments Atrix Laboratories, Inc.*)	3,698	3,443	- 255

*) Purchase price excluding premium

The detailed composition and development of the financial assets can be found in the fixed asset statement (p. 78/79).

(32) Loans

In December 2001 a MediGene, Inc. senior executive was granted a US$ 200,000 loan, with interest payable at 2.5% per annum. Annual capital repayments of US$ 5,000 are due from December 2002. The total amount, including all interest payments, is due in December 2006. As at December 31, 2002, the loan still outstanding amounted to US$ 195,000.

Liabilities and shareholders' equity

(33) Liabilities

The pension accruals have a term of more than five years. The remaining long-term liabilities are all due within five years and are not secured.

in T€	2001	2002	Change in T€	Change
Current liabilities				
Current portion of capital lease obligations	443	401	-42	-9%
Trade accounts payable	2,500	1,128	-1,372	-55%
Debt (due to banks)	25	0	-25	-100%
Accruals	2,007	2,526	519	26%
Deferred income	0	103	103	–
Other current liabilities	600	493	-107	-18%
	5,575	4,651	-924	-17%
Long term liabilities				
Long-term debt	1,896	2,650	754	40%
Capital lease obligations	442	277	-165	-37%
Other liabilities	34	34	0	–
with a term > 5 years:				
Pension accrual	30	32	2	7%
	2,402	2,993	591	25%

Research and development loan

Since 2000 the company received a development 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. In case the proof of concept should fail, the loan has to be repaid. The repayment deadline had not been fixed by December 31, 2002; it is expected to be set for 2004. The marked increase in long-term debt is mainly attributable to this loan.

Other liabilities comprised the following items as at December 31, 2002:

in T€	2001	2002	Change in T€	Change
Other current liabilities				
Grant-related liabilities	89	73	-16	-18%
Liabilities from cooperation agreements	197	41	-156	-79%
Wage- and church-tax liabilities	175	158	-17	-10%
Social insurance	137	151	14	10%
Liabilities from benevolent fund and direct insurance	0	42	42	–
Liabilities from withholding tax	0	28	28	–
Other	2	0	-2	-100%
	600	**493**	**-107**	**-18%**
Other long-term liabilities				
Convertible bond liabilities	34	34	0	–

The reduction in other current liabilities can be attributed to the reduction in liabilities arising from co-operations (-156 T€). These liabilities are repayments of research and development overpayments. Grant-related liabilities include a possible repayment of grants received.

(34) Accruals

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

Accruals

in T€	Dec. 31, 2001	Used/ reversed	Set up	Dec. 31, 2002
Vacation entitlements and overtime	230	-230	324	324
Bonuses	149	-149	77	77
Taxes	46	-46	4	4
Rent payments	150	-150	115	115
Costs of annual financial statement and audit	117	-117	104	104
Employers' liability insurance	35	-35	59	59
Damages	179	-179	0	0
License payments	52	-52	44	44
Other annual financial statement costs	80	-80	68	68
Clinical trials and approval	302	-302	1,050	1,050
Production and preclinical trials	431	-431	412	412
Other	165	-165	114	114
Legal costs	72	-72	23	23
Consultants	0	0	131	131
Total	**2,007**	**-2,007**	**2,526**	**2,526**

In addition to other accruals, we have a pension reserve. In 1998 the company, within the framework of a salary conversion, agreed to grant Dr Heinrich a pension commitment in the form of a one-off payment of 26 T€. This commitment has been valued at its cash value of 32 T€. The calculation was based on the tabular guidelines set by Dr Klaus Heubeck with an interest rate of 6.00%.

(35) Deferred income

As at the balance sheet date December 31, 2002, there was deferred income that contained a license payment from Aventis for 2003 that has already been received.

(36) Shareholders' equity

There was no increase in capital in 2002. The share capital increased by 7 T€, the par value of the options that were exercised. The difference of 39 T€ to the exercise price was transferred to capital reserves. On December 31, 2001, the total number of shares outstanding was 11,198,637. In 2002, employees, advisers and members of the Supervisory Board exercised 7,568 options. The total number of shares outstanding thus increased to 11,206,205.

Other comprehensive income 2002 consists of unrealized losses from the market valuation of Atrix shares (-2,022 T€) and currency translation adjustments (-233 T€).

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

Members	No. of share 2001	No. of share 2002	No. of options 2001	No. of options 2002	No. of CB*) 2001	No. of CB*) 2002
Prof Dr Ernst-Ludwig Winnacker Winnacker Supervisory Board Chairman, Co-founder	292,676	292,676	38,700	38,700	1,600	2,400
Dr Helmut Schühsler Supervisory Board Deputy Chairman	25,940	25,940	6,880	6,880	1,200	1,800
Prof Dr Dr Ernst-Günter Afting Supervisory Board member	11,217	11,217	15,370	15,370	800	1,200
Dr Pol Bamelis Supervisory Board member	330	330	0	0	400	800
Prof Dr Michael Hallek Supervisory Board member	284,738	284,738	5,590	5,590	800	1,200
Michael Tarnow Supervisory Board member	6,337	6,337	0	0	20,400	25,800
Total Supervisory Board	621,238	621,238	66,540	66,540	25,200	33,200
Dr Peter Heinrich Chief Executive Officer, Co-founder	499,500	499,500	36,636	36,636	26,000	41,000
Dr Johanna Holldack Chief Operating Officer	0	0	43,000	43,000	25,500	37,500
Alexander Dexne Chief Financial Officer	0	0	0	0	0	0
Total Executive Board	499,500	499,500	79,636	79,636	51,500	78,500
Shareholders' equity MediGene AG	0	0	0	0	0	0

*) Convertible bonds
(status as at December 31, 2001 and 2002)

On December 31, 2002 the total number of shares outstanding was 11,206,205 and the number of shares on a »total dilution« basis was 11,929,160. The changes in shareholders' equity are listed in the consolidated changes in shareholders' equity. (p. 77)

exercised at any time after option rights are granted. Holders of options are entitled to make use of their option rights and, during the term, to buy new company stocks in return for the 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
Total options issued	**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*	*100,465*
of which under the 1999 stock option plan	*0*	*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*	*87,626*
of which under the 1999 stock option plan	*7,658*	*0*	*7,658*
Options converted into shares in 2002	7,568	0	7,568
of which under the 1997 stock option plan	*860*	*0*	*860*
of which under the 1999 stock option plan	*6,708*	*0*	*6,708*
Total options converted	**200,737**	**2,580**	**203,317**
Withdrawn options rendered invalid 2001	731	0	731
Withdrawn options rendered invalid 2002	1,161	0	1,161
Total remaining convertible options as at Dec. 31, 2002	**323,992**	**61,060**	**385,052**

(37) Stock option plan

The annual general meetings in July 1997 and July 1999 adopted stock option plans. These granted options 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 position within 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 options issued in 1997 and 1998) or two years (for options issued in 1999 and 2000), they can be

The exercise price for the 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«. As a result, no personnel expenses are recognized for options that were issued to employees and members of the Executive Board and the Supervisory Board up to December 31, 1999. Expenses totaling 138 T€ were recognized in 2001 (2000: 138 T€), based on a fair value of € 10 per option. The value of options issued to members of the Scientific Advisory Board is expensed at the date of the option being granted. 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, there would have been no effects on the company's annual result in 2002. The last options with a term of two years were issued in 2000. The date of granting would thus already have been reached in 2002. In 2001, the pro forma impact of the application of SFAS No. 123 was as follows:

Net loss

	2001
As reported T€	-110,490
Pro forma according to SFAS No. 123 T€	-110,529
Pro forma net loss per share €	-10.05

The value of the options was worked out using the Black Scholes Option Pricing Method and, after taking account of the 1:43 share split carried out in 1999, amounts to € 0.27 for the options issued in 1997 and 1998 and € 0.99 for those issued from 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

(38) Convertible bonds

A new convertible bond plan was adopted at the extraordinary shareholders' meeting in May 2000. Under this plan, employees, advisers and members of the Executive Board and the Supervisory Board receive convertible bonds at the par value of € 1. The number of convertible bonds to be granted to employees and members of the Executive Board is limited to 670,000. The number of convertible bonds to be granted to members of the Supervisory Board is limited to 3,000. The number of convertible bonds offered depends, among other things, on how long an individual has worked for the company and the position that he/she holds. The convertible bonds expire five years after the date when they were 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 on the nominal sum paid.

At the ordinary shareholders' meeting in May 2001, the resolution passed in 2000 was amended. Convertible bonds issued from June 2001 onwards 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 executive organs of affiliated companies, 100,000 of these to the Executive Board, 439,830 to employees and 70,000 to advisers. The conversion price per convertible bonds is in line with the market price at the time of issuance +20%.

At this ordinary shareholders' meeting in May 2001, it was also agreed to issue a further 3,000 convertible bonds to members of the Supervisory Board.

At the ordinary shareholders' meeting in May 2002, the Executive Board was empowered to issue a further 195,000 convertible bonds subject to the conditions prevailing in 2001. The issue is limited as follows: 75,000 to members of the Executive Board and to the executive organs of affiliated companies and 120,000 to employees. If bonds are supposed to be issued to members of the Executive Board of the company, only the Supervisory Board is entitled to issue them. At this ordinary shareholders' meeting in May 2002 it was also decided to issue 3,000 convertible bonds to the members of the Supervisory Board.

In accordance with the 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 (in 2000 € 50.40) of the convertible bonds was expensed over the vesting period. The total expense was 108 T€ in 2002 and 116 T€ in 2001.

	No.	Fair value	Total conversion price
Convertible bonds issued in 2002			
February	102,140	*)	€ 26.40
May/June	3,000	*)	€ 9.90
July	90,156	*)	€ 11.72
	195,296		

*) Fair value below conversion price

	No.	Fair value	Total conversion price
Convertible bonds issued in 2001			
January	540	*)	€ 64.16
June	3,000	*)	€ 24.57
June/July	156,065	*)	€ 31.63
	159,605		

*) Fair value below conversion price

	No.	Fair value	Total conversion price
Convertible bonds issued in 2000			
July	3,000	€ 64.90	€ 50.40
September	9,630	€ 106.50	€ 50.40
	12,630		

Altogether, 367,531 convertible bonds have been issued so far within the framework of the participation programs that have been adopted. 1,200 convertible bonds were withdrawn from former employees in 2001 and are therefore invalid. The corresponding figure in 2002 was 28,428. As a result, the number of valid issued convertible bonds was reduced by 29,628 to 337,903 as at December 31, 2002.

I) Notes on the cash flow statement

The cash flow statement shows origin and use of the cash flows in the fiscal years 2001 and 2002. It is therefore of vital importance for the assessment of the financial position of the company.

Cash flow from investing activities and cash flow from financing activities are both ascertained in respect of payment. Cash flow from operating activities, on the other hand, is derived indirectly on the basis of the net loss for the year.

Within the scope of non-cash financing activities, leasing obligations amounting to 255 T€ (2001: 466 T€) were entered into for laboratory and office equipment in 2002.

Proceeds in the context of the research and development loan and for convertible bonds issued have been reported as »Proceeds from loans« under cash inflow from financing activity.

The final amount of cash and cash equivalents includes cash in hand, bank balances and checks with an original term of up to three months. In this respect it is in conformity with the corresponding item in the consolidated balance sheet. This reported amount was subject to a restraint on disposal as at December 31, 2002 because of a rent guaranty of 171 T€.

J) Segment reporting

The company is active in Germany and the United States.

Segment reporting by region

(Activities in the U.S. were begun on March 1, 2001. The figures therefore do not represent the full fiscal 2001).

in T€	Germany 2001	USA 2001	Germany 2002	USA 2002
Other operating income	7,493	0	3,537	0
R&D expenses	-20,616	-7,056	-24,609	-10,636
Depreciation[1)]	-2,476	-297	-805	-507
EBIT	-19,343	-9,345	-26,900	-13,297
Investments[2)]	1,150	1,491	570	389
Cash flow (from operating activities)	-12,958	-8,651	-25,341	-13,385
Assets	105,466	2,917	64,350	2,729
Liabilities and shareholders' equity	6,480	1,498	6,606	1,038
Average number of employees	98	32	127	49

1) Goodwill amortization has been included in the figures for Germany 2001

2) Investments include capital lease investments

The company is active in the HPV-indications, oncology and cardiology market segments. In these segments, drugs are developed using various technologies that are classified as follows:

HPV-indications: CVLP technology, drugs:
- Polyphenon® E for the treatment of genital warts
- CVLP tumor vaccine against cervical carcinoma and its precursor stages

Oncology: rAAV technology, HSV technology, drugs:
- Leuprogel® for the treatment of advanced prostate cancer
- rAAV tumor 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 (up to June 2002)

Segment reporting by market segment

in T€	HPV-indications	Oncology	Cardiology	Intersegment	Total
2002					
Other operating income	1,713	1,640	112	72	3,537
Selling expenses	-21	-222	0	-1.434	-1,677
General and administrative expenses	0	0	0	-5,500	-5,500
R&D expenses	-8,868	-14,344	-8,524	-3,509	-35,245
Depreciation	-277	-476	-227	-332	-1,312
Operating loss	-7,453	-13,401	-8,639	-10,704	-40,197
Investments[1)]	40	242	238	439	959
Average number of employees	23	52	27	74	176
2001					
Other operating income	4,797	2,394	229	73	7,493
Selling expenses	0	0	0	-921	-921
General and administrative expenses	0	0	0	-4,815	-4,815
R&D expenses	-7,254	-11,944	-5,976	-2,498	-27,672
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

1) The investments also include capital lease investments

Intersegment income in 2002 consists mainly of state subsidies from the Federal Ministry of 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 2002 totaled 16 T€ (2001 9 T€). These were eliminated during consolidation.

K) Other notes

(39) Cooperation agreements

Aventis

In February 2000, MediGene AG entered into a license and cooperation agreement with Aventis Pharma Deutschland GmbH. The subject matter of this agreement is the joint development of a rAAV tumor vaccine for the treatment of 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 the agreement is up to 37 million €, plus license fees for sales revenues. MediGene owns the marketing rights for most of the Eastern European countries and a number of countries in South America, 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, conduct the phase 3 study and register the vaccine. The tumor vaccine is currently in clinical trial phase 1/2. The first results should be available in 2003.

Schering

In September 1999, MediGene AG signed a license and cooperation agreement with Schering AG for the clinical development and marketing of the vaccine developed by MediGene for the treatment of cervical carcinoma and its precursor stages caused by human papilloma viruses. Schering will receive an exclusive global license, including the right to award sublicenses. Without taking account of the agreed license fees, MediGene will receive up to 55 million € upfront and in milestone payments. The research activities and the preclinical development of the vaccine will be carried out by MediGene. The clinical phase 1/2 study will be carried out by both parties to the agreement, while Schering will be responsible for the further clinical studies and marketing. The first clinical phase 1/2 study for the CVLP tumor vaccine for the treatment of cervical carcinoma and its precursor stages was concluded in the fourth quarter of 2002. The results are expected in the first half of 2003.

(40) Legal disputes

The company places great emphasis on providing its own inventions with immediate protection 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 at the United States District Court for the Northern District of Illinois against the Loyola University of Chicago and MedImmune, Inc. Among other things, this dispute concerned the holding of patents and the rights to register patents for CVLP technology, a method for producing virus-like particles that the company uses in developing therapeutics for HPV-induced tumors. The company was claiming damages from Loyola University of Chicago for various breaches of contract and damages from MedImmune, Inc. In a further court case the company was 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.

In January, 2003, MediGene reached an agreement with the Loyola University of Chicago and MedImmune, Inc. in the legal dispute concerning specific ownership rights to the CVLP technology. Under the agreement, the disputed ownership rights were assigned to Loyola. Should the CVLP tumor vaccine subsequently be marketed, the agreement will necessitate a license agreement with Loyola University.

During the last fiscal year there were no other court cases or arbitration proceedings that had or could have a substantial impact on the company's commercial position, and at present no proceedings of this kind are imminent.

(41) 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
2003	439	1,345
2004	229	756
2005	62	427
2006	0	12
after	0	0
Minimum leasing obligations	**731**	**2,539**
Less interest amount	-54	
Total capital lease obligations	**677**	
Short-term obligations	401	
Long-term obligations	277	

(42) Total unused/open credit lines

No open credit lines existed as at December 31, 2002 in addition to the cash reported under Note (26).

(43) Financial instruments

SFAS No. 107 »Disclosures about the 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 owing to their short-term maturities. MediGene's financial instruments currently consist exclusively of these original financial instruments. The book values of these instruments correspond to their market values.

(44) German Corporate Governance Code

In December 2002, the Executive Board and the Supervisory Board of MediGene AG declared for the first time that the behavioral recommendations on company management and supervision that were announced in the electronic Federal Bulletin by the Code of Conduct Commission (Kodex-Kommission) were, with few exceptions, observed. This declaration is permanently accessible on the company website (www.medigene.de/InvestorRelations/CorporateGovernance) in German and English.

(45) 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

Alexander Dexne
Chief Financial 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 Dr Ernst-Günter Afting
Chief Executive Officer, GSF

Dr Pol Bamelis
Former Management Board member of Bayer AG, Leverkusen

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

Michael Tarnow
Biopharmaceuticals Consultant, Boston, USA

Prof Dr Norbert Riedel (substitute member)
President of the Recombinant Strategic Business Unit of Baxter Healthcare Corporation Hyland Immuno, 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, Munich

Prof Dr Ernst-Ludwig Winnacker
- Bayer AG, Leverkusen
- KWS Saat AG, Einbeck

Dr Helmut Schühsler
- Ascenion GmbH, Munich
- Curacyte AG, Munich (Chairman)
- DeveloGen AG, Göttingen
- Garching Innovation GmbH, Munich
- GPC Biotech AG, Martinsried
- Ingenium Pharmaceuticals AG, Martinsried
- Intercell AG, Austria
- Morphochem AG, Munich (Chairman)
- Peptor Ltd., Israel
- SelectX Pharmaceuticals Inc., USA
- Sequenom Inc., USA

Prof Dr Dr Ernst-Günter Afting
- BioM AG, Martinsried
- Curacyte AG, Munich
- Enanta Pharmaceuticals Inc., USA
- Intercell AG, Austria
- Sequenom Inc., USA
- Xerion Pharmaceuticals GmbH, Martinsried

Dr Pol Bamelis
- Agfa-Gevaert AG, Leverkusen
- Agfa-Gevaert N. V., Belgium
- Crop Design N. V., Belgium
- Evotec OAI AG, Hamburg
- Innogenetics N. V., Belgium
- N. V. Bekaert S. A., Belgium
- Oleon N. V., Belgium

Prof Dr Michael Hallek
- Sireen AG, Munich

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

Income statements in accordance with HGB

MediGene AG individual financial statements for the periods from January 1 to December 31, 2002 and 2001

in T€		2001	2002
1.	Revenues	0	0
2.	Other operating income	8,334	3,752
		8,334	**3,752**
3.	Cost of materials		
	a) Cost of raw, auxiliary and operating materials	772	981
	b) Cost of services bought	7,077	12,683
		7,849	**13,664**
4.	**Gross profit**	**485**	**-9,913**
5.	Personnel expenses		
	a) Wages and salaries	4,965	6,803
	b) Social insurance contributions and expenditures for retirements benefits thereof for retirements benefits: 50 T€ (2001: 17 T€)	838	1,212
		5,803	**8,015**
6.	Depreciation of intangible and tangible assets	430	539
		430	**539**
7.	Other operating expenses	10,742	9,236
8.	**Operating loss**	**-16,490**	**-27,703**
9.	Other interest and related costs	4,211	2,177
10.	Interest and related expenses	-1	-36
11.	**Result from ordinary operations**	**-12,280**	**-25,562**
12.	**Net loss for the year**	**-12,280**	**-25,562**
13.	Net loss brought forward	-30,403	-42,683
14.	**Accumulated deficit**	**-42,683**	**-68,245**

Totals may vary due to rounding

Balance sheet in accordance with HGB

MediGene AG individual financial statements as of December 31, 2002 and 2001

Assets

in T€	2001	2002
A. Fixed assets		
I. Intangible assets		
Software	37	26
II. Tangible assets		
Plant and equipment	1,334	1,198
III. Financial assets		
1. Investments in related parties	70,636	84,439
2. Investments	3,698	3,698
	75,705	**89,361**
B. Current assets		
I. Inventories		
Raw materials and supplies	538	443
II. Receivables and other assets		
other assets	1,012	1,351
thereof with a term > 1 year		
32 T€ (2001: 30 T€)		
III. Securities		
Other securities	6,000	0
IV. Cash and cash equivalents	80,297	47,151
	87,847	**48,946**
C. Accrued and deferred items	**348**	**406**
	163,900	**138,712**

Totals may vary due to rounding

Liabilities and shareholders' equity

in T€	2001	2002
A. Shareholders' equity		
I. Share capital	11,199	11,206
II. Additional paid-in capital	189,819	189,857
III. Accumulated deficit	-42,683	-68,245
	158,334	**132,817**
B. Accruals		
1. Pension accrual	30	32
2. Other accruals	972	1,724
	1,002	**1,755**
C. Liabilities		
1. Loan	171	338
thereof convertible 338 T€ (2001: 171 T€)		
2. Trade liabilities		
thereof with a term < 1 year	2,043	894
894 T€ (2001: 2.043 T€)		
3. Related parties liabilities	1	0
thereof with a term < 1 year 0 T€ (2001: 1 T€)		
4. Other liabilities	2,349	2,805
thereof with a term < 1 year 493 T€ (2001: 624 T€)		
thereof social insurance 151 T€ (2001: 137 T€)		
thereof taxes 185 T€ (2001: 176 T€)		
	4,564	**4,037**
D. Accrued and deferred items	**0**	**103**
	163,900	**138,712**

Independent Auditor's report

We have audited the accompanying consolidated balance sheet of MediGene AG as of December 31, 2002 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, 2002 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, 2002 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, 2002 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, in March 3, 2003

Reitmeier
Auditor

McMahon
Auditor

PricewaterhouseCoopers GmbH
Auditors

Report of the Supervisory Board

In fiscal 2002 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 reported regularly on the corporation's economic status and business development position, corporate planning, major business transactions and fundamental matters of corporate policy, including the strategic and organizational alignment, cost and earnings trends, investment measures and financial planning.

The Supervisory Board performed its duties at seven meetings (February 14, 2002; April 8, 2002; May 22, 2002; July 12, 2002; August 23, 2002; September 30, 2002; December 2, 2002) and numerous telephone discussions. Other employees were consulted on specific issues. The Supervisory Board was also available to the Executive Board for one-on-one discussions. The Chairman of the Supervisory Board generally held at least one telephone conversation per week with the Chairman of the Executive Board, keeping himself and his Supervisory Board colleagues informed about major business transactions and offering advice and support.

Focal points of discussion

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 depth with the Executive Board. Besides current business development, the Supervisory Board paid particular attention to the corporation's strategic development. For this reason, the portfolio of research and development projects, their development status and their chances of realization were discussed with particular intensity.

Alongside existing projects, the focus of discussion was on the integration of the new U.S. location, the imminent approval and marketing of the drug Leuprogel® for the treatment of prostate cancer, the initiation and implementation of clinical trials, the clinical phase 2 trial of the drug candidate Etomoxir that had to be discontinued for safety reasons and the measures to be derived from that, plus the financial position. In addition, the Supervisory Board requested and received comprehensive reports about the budget for 2003. Following detailed consultation, the Supervisory Board approved the plans of the Executive Board. Furthermore, 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.

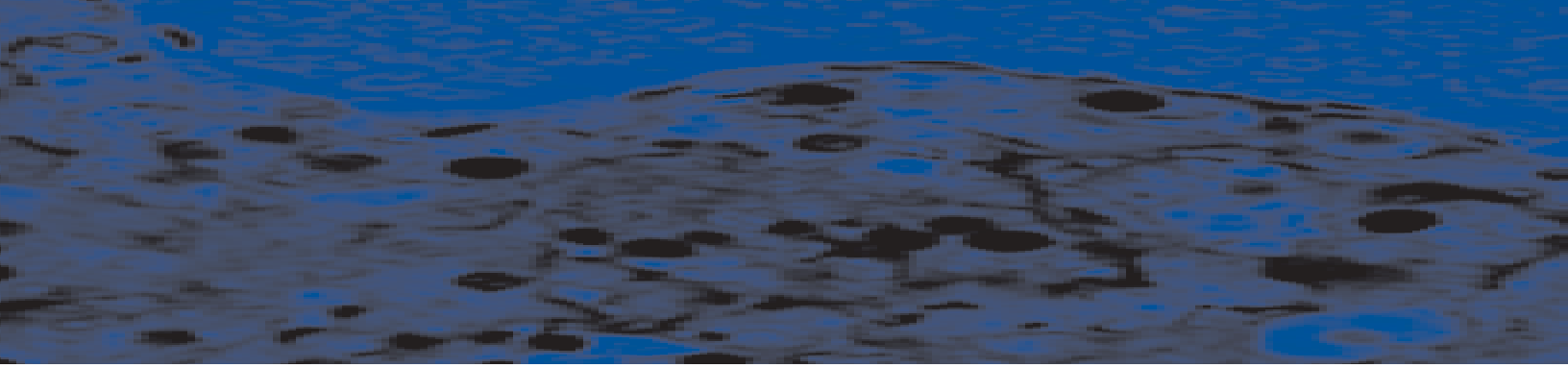
Supervisory Board committees

In the fiscal year 2002 there was an Audit Committee and a Compensation Committee.

The duties of the Compensation Committee include the personnel affairs of the Executive Board members. Focal points are the conclusion and alteration of the employment contracts with the Executive Board members and the fixing of their remuneration. The members of the Audit Committee deal with issues relating to accounting and risk management, the required independence of the auditor, the awarding of the audit assignment to the auditor, the determination of audit focal points and the fee agreement .

Enhancements of Corporate Governance

In 2002 the Supervisory Board dealt in detail with the further development of Corporate Governance at MediGene. In addition to the company-specific Corporate Governance Principles that are based on the German Corporate Governance Code, the adapted



rules of procedure for the Executive Board and the Supervisory Board were adopted as a supplementary measure. The Executive Board and the Supervisory Board have committed themselves to the implementation of MediGene's Corporate Governance Principles.

In December 2002, the Executive Board and the Supervisory Board issued their first declaration of compliance in accordance with § 161, Stock Corporation law.

Members of the Supervisory Board

In 2002 there were no changes in the composition of the Supervisory Board.

Annual report and consolidated financial statements

The auditor chosen by the Shareholders' Meeting and commissioned by the Supervisory Board, PricewaterhouseCoopers Gesellschaft mit beschränkter Haftung Wirtschaftsprüfungsgesellschaft, Munich Branch, audited the financial statements of MediGene AG, the consolidated financial statements for the fiscal year 2002 and the MD&As of MediGene AG and the Group and granted them the unqualified audit certificate. The consolidated financial statements in accordance with US-GAAP were enhanced by means of a Consolidated MD&A and other explanatory notes in accordance with § 292a HGB. These US-GAAP consolidated financial statements exempt 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 5, 2003. The auditor participated in the balance sheet meeting, reporting on the most important results of his audit and answered queries.

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

At its meeting on March 5, 2003, the Supervisory Board approved the financial statements of MediGene AG drawn up by the Executive Board and the consolidated financial statements for the fiscal year 2002, which are thus adopted.

The Supervisory Board would like to thank the Executive Board and members of staff for their valuable efforts for the company in the difficult fiscal year 2002.

Munich, in March, 2003

Prof Ernst-Ludwig Winnacker
Supervisory Board Chairman

Glossary

Ad-hoc disclosure
According to AktG § 13 price-sensitive information has to be released immediately

Acquisition
Takeover of a company

Biopharmaceuticals
Research and development of drugs and therapies with biotechnological and molecularbiological methods

Biotechnological
Utilizaton of natural and modified biological systems and their components

CG Corporate Governance Codex
Principles for value-oriented corporate governance and control

DNA
Desoxyribonucleic acid, a carrier of genetic data

EBIT
Earnings before interest and taxes

EBITA
Earnings before interest, taxes and amortization

EBITDA
Earnings before interest, taxes, depreciation and amortization

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

FIFO
First In First Out, accounting method for inventories

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

Genetic engineering
Methods for the analysis, the targeted modification or the recombination of genes

HGB
German Commercial Code

Hormone
Biochemical transmitter substance of the human body

IPR&D
In Process Research and Development

Licensing
Sale (out-licensing) or acquisition (in-licensing) of development or marketing rights for a product or technology

Metastases
Secondary tumors

Net cashburnrate
Change in cash and cash equivalents and securities reported in the balance sheet

Oncology
Study of tumors and tumor-related diseases

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

Orphan Drug Designation
Seven years of marketing exclusivity after approval, tax benefits on clinical research and development costs and clinical protocol assistance from the office of Orphan Products Development

Pharmacology
Study of the interaction between drug and organism

Pipeline
All the drug candidates that are in development

Placebo
A drug dummy, pharmacologically ineffective

Protein
A complex biological molecule made up of amino acids

R&D
Research and Development

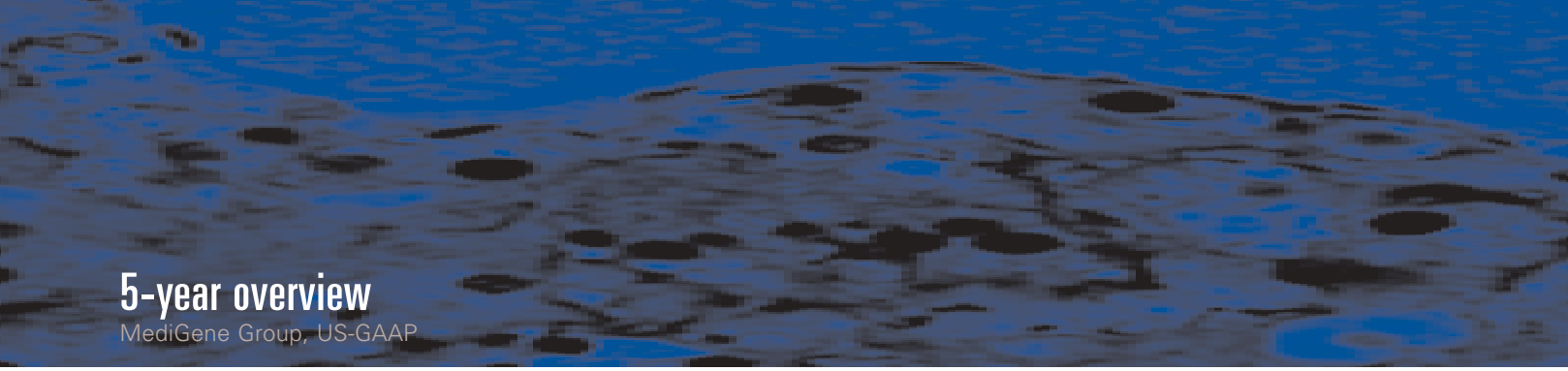
Rekombinant
Genetically engineered

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

Testosterone
Male sex hormone

Toxicology
Study of the harmful effects of substances on health

US-GAAP
United States Generally Accepted Accounting Principles



5-year overview

MediGene Group, US-GAAP

		1998	1999	2000	2001*)	2002	Change 2001-2002
Income statements							
Revenues	T€	174	0	0	0	0	–
Other operating income	T€	1,998	5,960	6,354	7,493	3,537	-53%
Research and development expenses (R&D)	T€	-3,910	-7,845	-13,774	-27,672	-35,245	27%
Business development and general administration expenses	T€	-876	-1,439	-2,528	-5,736	-7,177	25%
Amortization of goodwill	T€	0	0	0	-1,845	0	-100%
Depreciation	T€	-178	-269	-394	-928	-1,312	41%
Operating loss before write-off »IPR&D«	T€	-2,791	-3,593	-10,341	-28,689	-40,197	40%
Result before income tax	T€	-2,853	-3,745	-9,264	-110,490	-38,870	-65%
Write-off »IPR&D«	T€	0	0	0	-86,543	0	-100%
Personnel expenses	T€	-1,959	-2,962	-4,937	-9,035	-12,675	40%
Balance sheet data							
Balance sheet total	T€	18,674	21,268	127,790	108,383	67,079	-38%
Shareholders' equity	T€	13,284	9,360	118,793	100,406	59,435	-41%
Cash and securities	T€	17,261	18,059	115,226	86,843	47,762	-45%
Cash and cash equivalents	T€	17,261	10,149	92,903	80,843	47,762	-41%
Long-term liabilities	T€	4,278	5,984	1,362	2,402	2,993	25%
Equity ratio	%	71	44	93	93	89	-5%
Cash flow							
Cash flow from operating activities	T€	-1,990	-2,977	-6,560	-21,993	-38,635	76%
Cash flow from investing activities	T€	-615	-8,412	-21,494	9,065	5,296	-42%
Cash flow from financing activities	T€	17,265	4,278	110,807	930	312	-66%
Employees as at Dec. 31		35	50	90	160	185	16%
MediGene share							
Shares outstanding as at Dec. 31		6,728,124	6,728,124	10,106,722	11,198,637	11,206,205	0.1%
Weighted average number of shares		4,936,701	6,728,124	8,417,423	11,003,245	11,204,990	2%
Net loss per share	€	-0.58	-0.56	-1.10	-10.04	-3.47	-65%
Net loss per share adjusted for write-off »IPR&D«	€	-0.58	-0.56	-1.10	-2.18	-3.47	59%
Share price at the end of the year	€	–	–	73.5	21.2	4.0	-81%
Dividend	€	0	0	0	0	0	–

*) First-time consolidation of MediGene, Inc. from March 1, 2001

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Financial calendar 2003/2004

March, 26
Annual report 2002
Press and analysts conference

May, 14
3-months report
Press and analysts phone conference call

June, 4
Annual shareholders' meeting

August, 13
6-months report
Press and analysts phone conference call

October, 8
R&D day for journalists at MediGene

October, 9
R&D day for analysts at MediGene

November, 12
9-months report
Press and analysts phone conference call

2004

March, 24
Annual report 2003
Press and analysts conference

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