MediGene

° Drugs on the market
° Blockbuster candidates under development
° Our own sales activities before kick-off

THINK TO THE FUTURE, UTILIZE STRENGHTS

Annual Report 2007

Key figures

MediGene Group, IFRS

In T€	2007	2006	Change
Income statements			
Revenues	**22,058**	30,549	-28%
Other operating income	**1,819**	675	169%
Cost of sales	**-18,493**	-10,669	73%
Gross profit	**5,384**	20,555	-74%
Selling, general and administrative expenses	**-9,026**	-7,639	18%
Research and development expenses	**-28,025**	-21,275	32%
Operating result	**-31,667**	-8,359	>200%
Result before income tax	**-31,345**	-7,606	>200%
Net result	**-29,876**	-6,891	>200%
Net loss per share	**-0.95**	-0.31	>200%
Weighted average number of shares outstanding	**31,541,103**	22,410,901	41%
Personnel expenses	**-14,783**	-11,801	25%
Cash flow			
Cash flow from operating activities	**-34,037**	-2,553	>200%
Cash flow from investing activities	**-1,296**	1,996	-165%
Cash flow from financing activities	**29,076**	15,311	90%
Balance sheet data			
Cash and cash equivalents	**46,511**	52,498	-11%
Balance sheet total	**114,929**	124,136	-7%
Current liabilities	**9,736**	14,358	-32%
Non-current liabilities	**2,100**	1,266	66%
Sharesholders' equity	**103,093**	108,512	-5%
Equity ratio	**90%**	87%	3%
Employees as at Dec. 31	**172**	**171**	**1%**
MediGene share			
Number of shares issued as at Dec. 31	**33,946,481**	28,653,630	18%
Share price (closing price, XETRA)	**5.35**	6.97	-23%

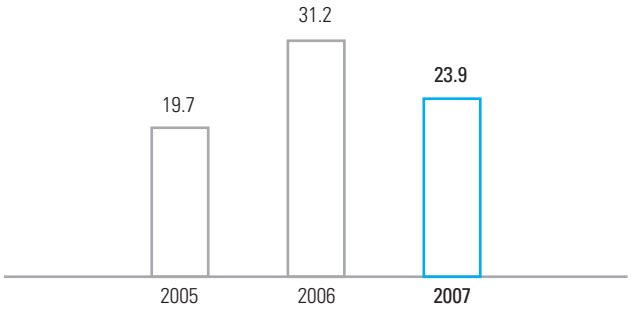
Broad pipeline of innovative drugs

Product	Indication	Preclinic/ Research	Clinical phase I	Clinical phase II	Clinical phase III	Approval	Marketed	Peak sales potential[1] (in million €)
Eligard® [2] see page 19	Prostate cancer							>100[3]
Veregen™/ Polyphenon® E Ointment see page 20	Genital warts							>200[4]
	Actinic keratosis[5]							>200
Oracea®/Yanikler™ see page 21	Rosacea							>20
EndoTAG™-1 see page 22	Pancreatic cancer							>200
	Breast cancer							>1,000
	Additional solid tumors							>400
RhuDex® see page 23	Rheumatoid arthritis							>1,000
HSV (NV1020) see page 24	Colon liver metastases							>150
HSV (G207) see page 24	Glioblastoma							>70
mTCR see page 25	Cancer and autoimmune diseases							>1,000
Chance of reaching the market			10–30%	30–60%	60–80%	80–90%		

[1] Per year, peak sales. MediGene will receive royalties from sales of products, which are jointly developed or marketed with biotech or pharmaceuticals companies.
[2] European marketing rights acquired from QLT USA, Inc. (formerly Atrix)
[3] Marketing partnership with Astellas Pharma Europe Ltd.
[4] Marketing partnership with Bradley Pharmaceuticals, Inc. (now Nycomed US, Inc.)
[5] Precursors of a specific kind of skin cancer

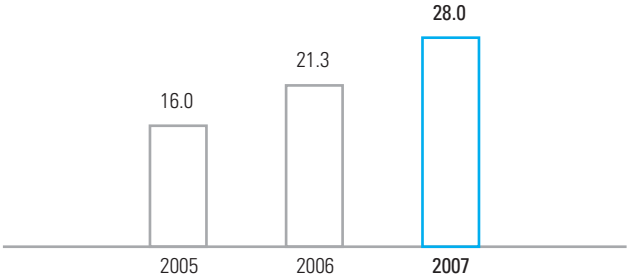
Total revenues

In million €



Research & development expenses

In million €



Survey of the year 2007

January
MediGene initiates clinical phase IIa trial of RhuDex® for the treatment of rheumathoid arthritis.

February
MediGene AG successfully closes a capital increase of approx. 12.6 million €.

MediGene obtains European patent on EndoTAG™-1.

March
Six-months dosage of cancer drug Eligard® launched in Germany.

Annual result 2006 of MediGene AG: significant increase in revenues and improved result.

MediGene submits marketing authorization application for Polyphenon® E Ointment to European authorities.

April
MediGene AG and the Juvenile Diabetes Research Foundation (JDRF) start a collaborative research program for the development of a therapy for type I diabetes on the basis of mTCR.

MediGene initiates clinical phase II trial of EndoTAG™-1 for the treatment of hormone receptor-negative breast cancer.

MediGene completes patient recruitment of clinical phase II trial of EndoTAG™-1.

May
MediGene increased revenues in the first quarter of 2007.

Chief Financial Officer Alexander Dexne leaves MediGene AG.

MediGene AG appoints Dr. Thomas Klaue as Chief Financial Officer.

June
MediGene presents data obtained in a trial of oncolytic viruses on the occasion of the ESMO congress.

July
Decision about European marketing authorization for Oracea® postponed to 2008.

August
MediGene increased revenues in the first six months of 2007.

European approval procedure for the six-months dosage of cancer drug Eligard® successfully completed.

September
MediGene completes patient recruitment for clinical trial of oncolytic virus NV1020.

MediGene raises 15.6 million € in private placement with Santo Holding GmbH.

October
MediGene obtains US patent on RhuDex®.

November
MediGene significantly increased revenues in the first nine months of 2007.

MediGene and Celltrion announce co-development of anti-L1 monoclonal antibody therapeutic for treating cancer.

December
MediGene's second drug, Veregen™ (Polyphenon® E Ointment) launched.

MediGene appoints Dr. Frank Mathias, General Manager of Amgen Germany, as Executive Board Member for Marketing and Business Development.

2008

January
MediGene focuses its research activities and considers external financing for mTCR Program.

By developing and commercializing innovative drugs, we want to help patients lead a better life. For our shareholders, we want to establish a successful biotech company, providing an opportunity for them to participate in its value creation.

In 2008, we will implement the final step in our strategy of including all sectors of the pharmaceutical industry from research to drug development and including drug commercialization.

Contents

Dear Shareholders,
Ladies and Gentlemen,

In 2007, MediGene's first proprietary drug was launched on the market. This was an enormous success for MediGene and a premiere in two respects. Veregen™ is the first drug of a German biotech company to be marketed in the USA and it is the first proprietary clinical development of our company. For almost ten years, MediGene guided the active agent Polyphenon® E (the basis of Veregen™), the rights to which we acquired in 1999, through the entire preclinical and clinical development process and developed it into a drug ready for the market. Up to now, this is an unrivaled achievement in the German biotech industry. It demonstrates MediGene's research and development expertise and enhances the market presence which we have established with our licensed cancer drug Eligard® since 2004. Like Veregen™ in the USA, Eligard® is distributed by a partner company. We are planning to start our own drug marketing activities in 2008, thus further extending our vanguard role in the German biotech industry.

Commercialization of the drugs Veregen™ and Oracea® will be started in some select European countries. We are confident that we will obtain European marketing authorization for Oracea®, to which we hold the pan-European marketing rights, within the next few weeks. At the end of 2008, the first European marketing authorization for Veregen™ is expected to follow. The preparations for our sales activities are in full swing. I am extremely proud that we have been able to win Dr. Frank Mathias for MediGene. He is an excellent marketing expert and authority on the biotech and pharmaceutical industries. Dr. Mathias was Managing Director of the German branch of a worldwide biotech leader, Amgen. As Executive Board member for Marketing and Business Development, he will be in charge of the further setup of our sales and marketing team in order to begin MediGene's first ever product launch in Germany in the second half of 2008, starting with Germany.

In this way, we will implement the final step in our corporate strategy, for which I have campaigned for years: covering all core areas of a modern biopharmaceutical company – from research and development to the commercialization of drugs. This means that MediGene will profit much more from its own products, since the highest value in the pharmaceuticals business is generated from sales. It is our goal to finance research into as well as the development of innovative drugs through increasing sales revenue. Thus, MediGene's business model rests on two pillars: marketing generating revenue, and research and development facilitating future innovation and long-term growth.

MediGene has been strong in research and development for years. Our broad drug pipeline includes highly innovative projects at various stages of development, among them even

two drug candidates with a sales potential exceeding one billion €: RhuDex® for the treatment of rheumatoid arthritis and the cancer drug EndoTAG™-1. Both drug candidates made important progress in 2007. We have been able to successfully continue and even significantly expand our development program for EndoTAG™-1. In addition to an ongoing clinical trial for the treatment of pancreatic cancer, we initiated a clinical trial for the treatment of hormone-resistant breast cancer – a disease of extremely high medical need. Both projects have already reached the second of three clinical development stages, which are prerequisite for compiling a marketing authorization application.

In 2008, we will present pivotal results for EndoTAG™-1. By midyear, we expect to obtain the key data from the trial in the indication pancreatic cancer. This will deliver highly relevant findings regarding the efficacy of our product.

RhuDex® will also advance significantly this year. We will conclude an ongoing phase IIa pilot trial and initiate a large-scale phase II trial in early 2009. The 150 participating patients will benefit from an important improvement. Up to now, RhuDex® was difficult to take. Meanwhile, our scientists have managed to develop a considerably improved and much more convenient administration method. This means a major improvement in the development of RhuDex® was achieved by MediGene in 2007.

Our clinical trial of the cancer drug NV1020 also proceeded successfully. MediGene was repeatedly invited to participate in renowned scientific conferences, in order to present the positive interim data obtained in this ongoing trial in the treatment of liver metastases from colorectal carcinoma. MediGene expects to conclude the phase I/II trial of this highly innovative drug candidate in 2008.

Several research projects also progressed well in 2007, e.g. the further development of the EndoTAG® technology for which we received national research grants.

In 2007, MediGene reported nearly only positive news. One exception in July 2007 was the delay in the approval procedure for Oracea®, which is being advanced by our partner CollaGenex. However, I am confident that the European regulatory authorities will grant the approvals in the first half of 2008. MediGene's operating result in 2007 was according to plan. The net loss for the year of 32 million € was even a bit lower than predicted early in 2007.

2007 was a difficult year indeed for the shares of biotech companies. Particularly the drug-developing companies of our industry at home and abroad had to accept considerable price losses. These were provoked, among other things, by serious failures which a number of companies suffered in some individual drug development projects. The MediGene share belongs to this group, but still ranks among the strongest shares. Any way you look at it, our share price loss of 23% is a bitter pill to swallow. However, I am convinced that it reflects neither the progress MediGene made last year nor the potential of our enterprise.

Thinking to the Future and Utilizing Our Strengths is the title of this annual report. It refers to MediGene's innovation, our long-term strategic orientation, and the efficiency that characterizes our company. We have shown that we are faster than our competitors and that we have the expertise required to develop innovative drugs until they are ready for the market. Our well-balanced product portfolio has allowed a steady development of our company and offers highly attractive opportunities for the future. We know the market and we are able to respond flexibly to new developments and opportunities. We also invest sense and sensibility in the development of up-to-date drugs and the creation of a successful company. I think by saying this I am speaking for all employees of MediGene AG.

In 2008, some key events for our company are pending, starting with the current marketing authorization applications for Oracea® and Veregen™ and extending to the expected trial results for EndoTAG®-1. We want 2008 to mark the beginning of a new era for MediGene, one in which we will market a drug ourselves for the first time. We are also aiming to increase significantly our revenue and reduce our annual operating loss during the year.

A swift reduction in our loss will be one of our most important tasks over the next few years. We are therefore planning to enhance our revenue substantially once again in 2009, while reducing MediGene's research and development expenses. We intend to achieve the latter by marketing products ourselves, by setting up a development partnership as planned, and by spinning off our mTCR research projects which we announced at the start of this year. As we tackle this task, we will continue to ensure a balance between products ready for the market and development projects – so we can be strong in both areas: the development and the marketing of innovative drugs.

I would be delighted if you would accompany us along this path. Thank you for the trust you have placed in MediGene.

Sincerely,

Dr Peter Heinrich

Management der MediGene AG

Dr Peter Heinrich
Chief Executive Officer and Co-Founder of MediGene AG

Dr Peter Heinrich is a co-founder of MediGene and has been Chief Executive Officer of the company since 1995. Prior to this, he worked for Wacker Chemie AG, Munich for nearly eight years where he held various positions, e.g. in biopharmaceutical/ biochemical research as well as in the company's management. Among other things, Dr Heinrich was responsible for the establishment of the biotechnology division at Wacker. He also worked for the international alliance management. Dr Heinrich studied biology and chemistry at the University of Munich where he received a PhD in biochemistry. After that, he served as a postdoctoral scientist at Harvard University. Dr Peter Heinrich is co-founder and President of the Board of BIO Deutschland and Member of the Board of European Biopharmaceutical Enterprises (EBE), an interest group of European biopharmaceutical companies.

Dr Thomas Klaue
Chief Financial Officer

Before joining MediGene, Dr Klaue was a partner at Fozzati Partners LLC, Frankfurt, a private investment bank. He also served as Vice President of Business Development with Infineon Technologies AG for over five years. He established the emerging biochip business, managed the strategic investment group and corporate venture capital fund, and was head of M&A, organizational development, and cooperations in the U.S., Europe, and Asia. Prior to that, he served as Vice President of M&A at DaimlerChrysler Aerospace AG, Munich (now EADS) for five years. Before that, he was the Director and Head of Department for the pharmaceutical and chemical industry at the Treuhandanstalt, Berlin, the federal organization in charge of privatizing the former East German economy where he gained four years of experience. Dr Klaue is a chemical engineer and holds a doctorate in business economics. He obtained his management education at the MIT Sloan School and as a Harvard Business School graduate.

Dr Ulrich Delvos
Chief Operating Officer

Dr Ulrich Delvos, joined MediGene as Member of the Board for Research and Development in October 2004. Ulrich Delvos is a physician with extensive experience in drug development. He possesses more than 20 years management experience in major pharmaceutical as well as biotech companies in Germany and in the USA. Before joining MediGene, he was an Executive Committee Member and Managing Director at Aventis Behring GmbH, Marburg, as well as Senior Vice President and Chief Scientific Officer at Aventis Behring LLC in the USA. During his career, he has been in charge of licensing, drug approvals, the set-up/reorganization of R&D divisions, and the conclusion of financing activities.

Dr Frank Mathias
Member of the Board for Marketing, Sales & Business Development

From April 2008 onwards, Dr Frank Mathias will be the Board Member responsible for Marketing and Business Development. Dr Mathias possesses around 20 years of experience in marketing drugs at a senior level with international pharmaceutical companies, most recently the world-leading biotechnology company Amgen. Dr Mathias studied pharmacy at Paris VI University, earning his PhD in 1991. He embarked on his career in industry in 1988 as International Product Manager with Hoechst AG, Frankfurt. In 1990, he joined Albert-Roussel Pharma GmbH in Wiesbaden, first as a Pharmaceuticals Officer, then as a Product Group Manager and Deputy Head of Marketing. In 1995, Dr Mathias launched the Anti-Infectives Marketing Department at Hoechst Pharma in Frankfurt before assuming the Head of Marketing role at Servier Deutschland GmbH in Munich and then taking over as General Manager in 1996. In 2002, he moved as Head of Marketing to Amgen GmbH, Munich, the company he led successfully as its General Manager from 2003–2007.

STRONG POSITION MediGene concentrates on researching, developing, and commercializing novel drugs in three therapeutic areas: cancer, autoimmune diseases, and skin diseases. MediGene is the first German biotech company that has drugs on the market and in the approval process. Until now, our products have been marketed by partner companies. In 2008 we intend to start our own sales activities. MediGene has several drug candidates in clinical development, some of which with an individual annual sales potential exceeding 1 billion €. In addition, we possess innovative platform technologies which enable the search for other therapeutic substances. Acquired products complement our proprietary drug portfolio. This allows us to reduce risks, enhance our opportunities, and excellerate revenue generation.

A fingerprint is unique and permits a clear proof of identity. MediGene's fingerprint stands for transparent information and refers to the human body, the epicenter of our work.

OUR EMPLOYEE DR. SUSANNE FRESE WAS THE MODEL FOR THIS PICTURE

IDENTITY

The nose provides the most complex chemical sense, i.e. the sense of smell. Humans are able to distinguish about 10,000 different smells. Those who have a nose for something will be a nose ahead of the competition as well.

OUR EMPLOYEE DR. CHRISTINE LEMKE WAS THE MODEL FOR THIS PICTURE

HEAD START

FULLY INTEGRATED COMPANY MediGene is a pioneer in the European biotech industry. Accordingly, our development pipeline is highly mature, enabling us to enter the market early. Veregen™, launched in 2007, was the first drug from a German biotech company to enter the US market. MediGene's first proprietary development (previously known as Polyphenon® E Ointment) is distributed there by a partner company. The cancer drug Eligard® has already been available in Europe since 2004. MediGene acquired the pan-European marketing rights and guided Eligard® through the approval procedure. This drug is also distributed by a partner company. MediGene receives royalties on the sales of the drug and gains a profit from the positive sales development. We are going to further extend our lead when we start our own sales activities in 2008. The first drugs to be marketed by our own sales force are Veregen™ and Oracea®, which we expect to be approved for the European market in 2008. A new era is beginning for MediGene.

BRIGHT PROSPECTS FOR THE FUTURE MediGene's market presence is comparable to hardly any other European biotech company. We also excel at research and development, which facilitates future growth. We even have two drug candidates with sales potential of billions of euros, i.e. EndoTAG™-1 and RhuDex®, in clinical development (which is divided into three phases). EndoTAG™-1 is currently undergoing phase II trials for the treatment of pancreatic and breast cancer. The results of these trials should be available in 2008 and 2009. Provided that the outcome is positive, the phase III trials which are relevant to approval may be initiated afterwards. RhuDex® for the treatment of rheumatoid arthritis is currently undergoing a phase II pilot trial and an extensive phase II trial is scheduled to follow early in 2009. MediGene's novel cancer-killing viruses NV1020 and G207 are also in clinical development. Several innovative projects are in the research and preclinical stages. MediGene's pipeline has a lot to offer for the future.

Vision is a human being's most important guiding sense, allowing us safe orientation. The eye has the ability to focus on objects that are close, and recognize objects at a distance. A sharp view over a long distance is an essential prerequisite to identify, influence, and effectuate long-term developments.

OUR EMPLOYEE ULRICH ELSASSER WAS THE MODEL FOR THIS PICTURE

VISION

STABILITY

Our feet give us both stableness and freedom to move. They facilitate change and simultaneously help us to keep our balance. This is referred to as dynamic stability.

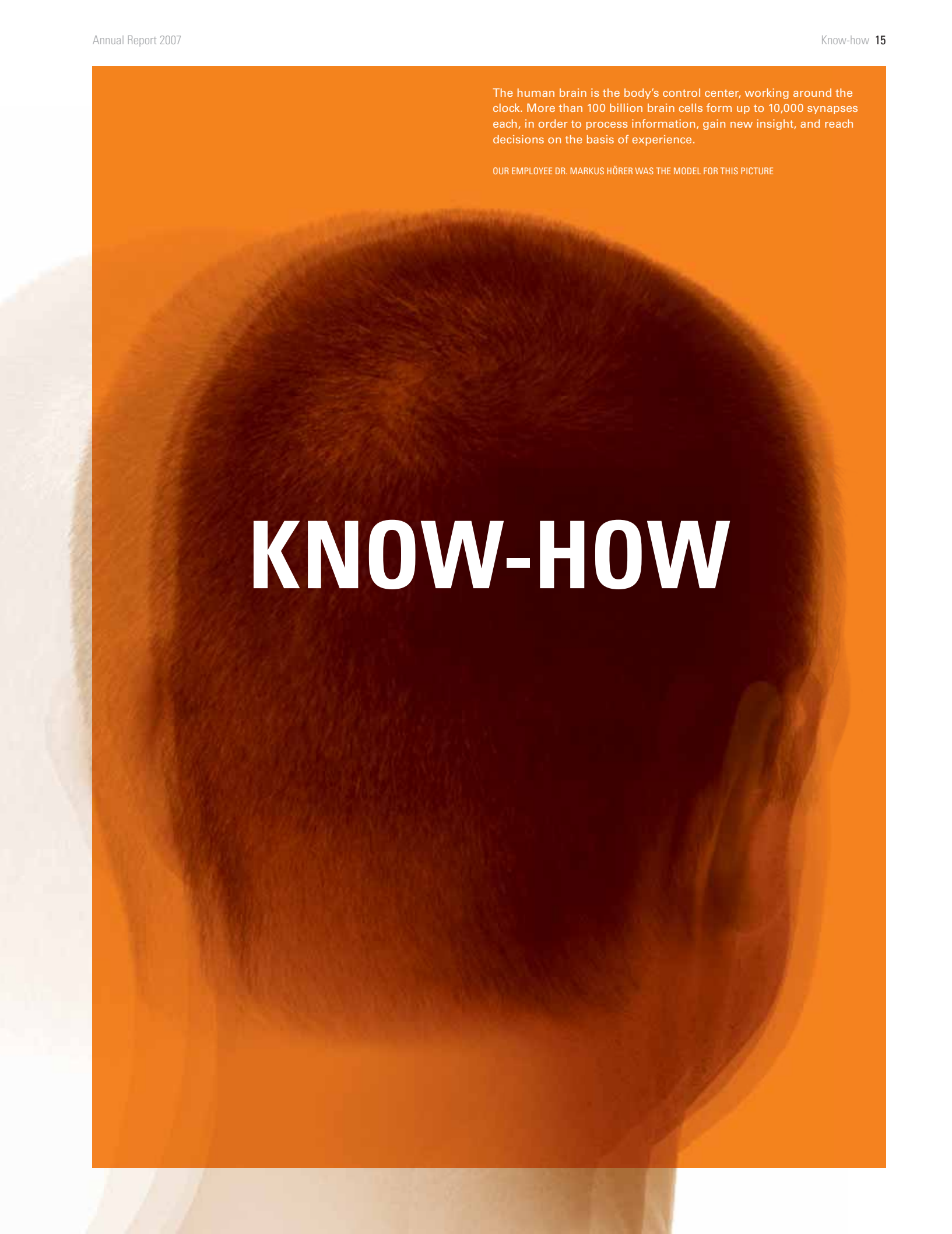
OUR EMPLOYEE DR. MARKUS KELLNER WAS THE MODEL FOR THIS PICTURE

BROAD PIPELINE MediGene relies on a broad drug portfolio which accounts for both the opportunities and the risks of drug development. On average, only 10% of all drug candidates reach the market. The probability of success significantly increases as the development of a drug candidate progresses. Apart from early-stage, highly innovative projects, our pipeline is particularly comprised of drug candidates at advanced clinical development stages. Furthermore, our products base upon different modes of action. Inevitable setbacks in drug development are thus absorbed which was already demonstrated by MediGene in the past. Stability and the ability to respond flexibly remain part of our strengths.

SUCCESSFUL STRATEGY Innovation is the basis for MediGene's future. We depend on finding novel drugs, developing them, and bringing them to market. Our first-class scientists stand for first-class research and development. Our strategists focus on the market. MediGene's projects are subject to strict criteria. They are reassessed at regular intervals and, whenever it is considered to be wise, they are discontinued, outsourced, or continued within the scope of partnerships. We are currently examining the spin-off of our mTCR technology into a new company and seeking partners for the development of our blockbuster candidates RhuDex® and EndoTAG™-1. In doing so, it is our intention to reduce the high development costs and risks, but at the same time to also benefit from the attractive products in the future. Simultaneously, we are scouring the market in order to add drugs that are ready for the market to our portfolio.

The human brain is the body's control center, working around the clock. More than 100 billion brain cells form up to 10,000 synapses each, in order to process information, gain new insight, and reach decisions on the basis of experience.

OUR EMPLOYEE DR. MARKUS HÖRER WAS THE MODEL FOR THIS PICTURE



KNOW-HOW

TOP-CLASS EMPLOYEES Working for a sunrise industry requires curiosity, initiative, endurance, and readiness to assume risks. Our employees' excellent know-how and great degree of commitment stand for MediGene's success. We share the goals of offering our patients a better life and creating economic value. Intelligence and enthusiasm are the driving forces which help us fulfill these tasks within our company.

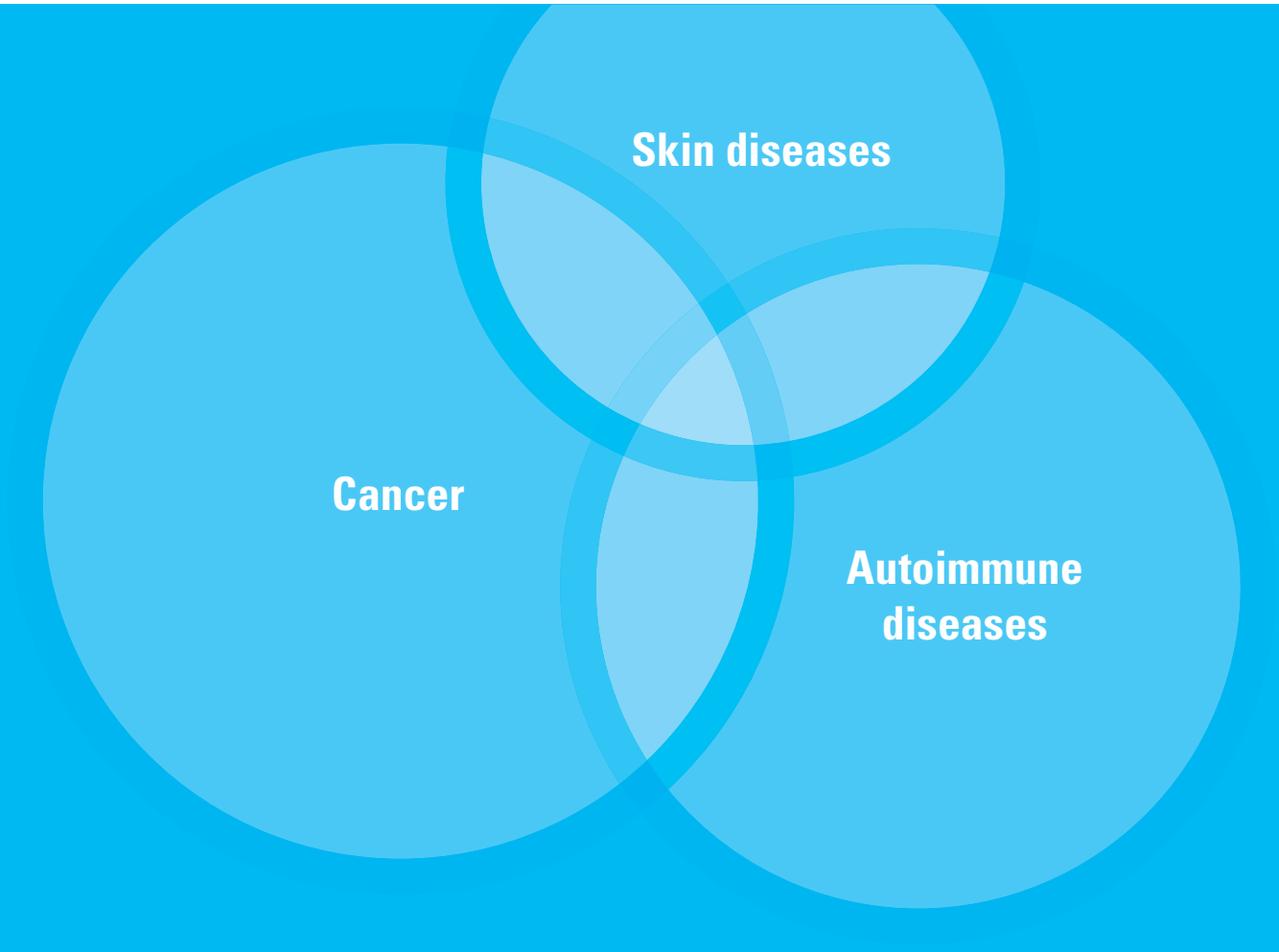
The mouth is the most agile part of the face and one of the most important means of expression of the human body. Through voice and facial expressions, emotions that determine our behavior and have an effect on our environment become perceptible. Emotions such as joy and passion enrich us and encourage us to pursue our goals fervently.

OUR EMPLOYEE CRISTINA REINIGER WAS THE MODEL FOR THIS PICTURE

PASSION

MediGene is active in three disease areas

Our products target on three closely linked disease areas with high potential. MediGene's portfolio creates an intersection of cancer, autoimmune and skin diseases, utilizing the resulting synergy for the research on, development, and commercialization of drugs.



Two drugs on the market

Two drugs approved

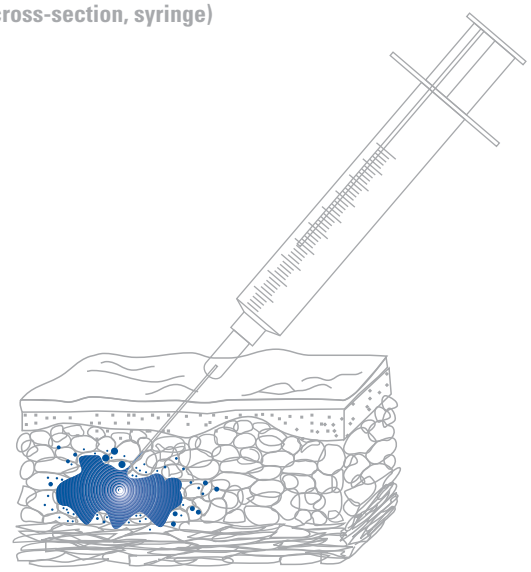
Broad pipeline, own technology platforms

Eligard®

Cancer

Indication	Preclinic/ Research	Clinical phase I	Clinical phase II	Clinical phase III	Approval	Marketed	Peak sales potential[1] (in million €)
Prostate cancer							>100

Administration of Eligard®
(skin cross-section, syringe)



Hormone therapy for prostate cancer with innovative drug delivery system

MediGene's first drug on the market, Eligard®, is a hormone compound for the treatment of advanced, hormone-dependent prostate cancer. The active substance (leuprolide acetate) significantly reduces the level of the male sex hormone testosterone, thus suppressing tumor growth. The established substance is combined with a novel drug delivery system, i. e. the Atrigel® depot technology: the liquid drug is injected subcutaneously and forms a gel-like implant that slowly disintegrates. Depending on the dosage administered, the drug is steadily released over a period of one, three, or six months. Aside from the one-month and three-month products available, the six-month product was approved and launched in Europe in 2007.

The European market launch of Eligard® by MediGene's partner Astellas Pharma started in 2004. MediGene's revenue from the sales of the drug is comprised of three elements: product sales to Astellas, royalties on the sale of Eligard® paid by Astellas, as well as milestone payments that MediGene receives from Astellas for the achievement of defined sales. MediGene, on the other hand, makes license fee payments for Eligard® to QLT USA, Inc. MediGene acquired the pan-European marketing rights to Eligard® from QLT and successfully guided the product through the German approval procedures.

Outlook

Eligard® will remain an important sales pillar for MediGene over the next few years as well. The launch of the six-month product in other European countries is scheduled for 2008.

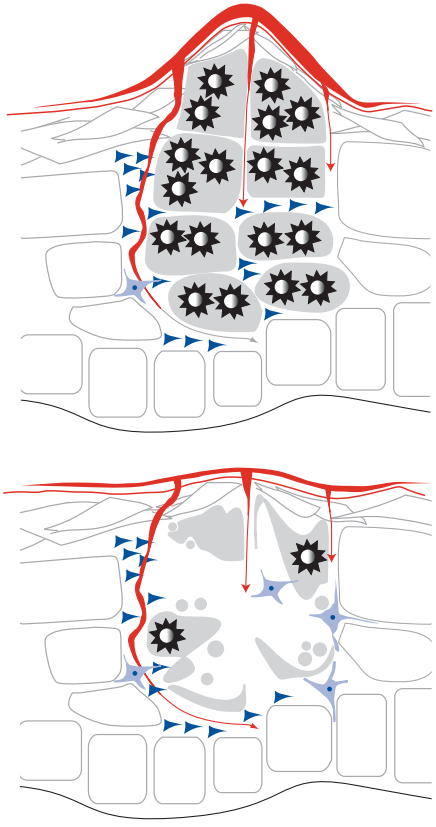
[1] Per year. MediGene will receive royalties from sales of product.

Veregen™ (Polyphenon® E Ointment)

Skin diseases

Indication	Preclinic/ Research	Clinical phase I	Clinical phase II	Clinical phase III	Approval	Marketed	Peak sales potential[1] (in million €)
Genital warts							>200
Actinic keratosis[2]							>200

Changes in a skin tumor induced by Veregen™



HPV infection of skin cells induces formation of warts
Veregen™ penetrates the skin, unfolds its immuno-modulatory effect and also directly acts on infected cells
Messengers (Cytokines, Interferones) are released
Cells of the immune system invade and destroy infected cells

A high-tech product from green tea

Veregen™, originally developed under the name of Polyphenon® E Ointment, is MediGene's second drug on the market. The US launch of Veregen™ by MediGene's marketing partner Bradley Pharmaceuticals, Inc. (now Nycomed US, Inc.) took place in December 2007. This makes MediGene the first German biotech company with a drug on the US market. In Europe, the product is currently undergoing the approval procedure and is scheduled for commercialization in the primary markets by MediGene's own sales force. Veregen™ is MediGene's first clinical proprietary development.

Unlike most other drugs, Veregen™ does not consist of one single active substance. Rather, it is a complex concentrate of catechines with a defined composition. These natural substances are extracted from green tea leaves in a patented process. During clinical development, Veregen™ tested in the treatment of genital warts showed high and sustained efficacy as well as a low recurrence rate. The results relevant to approval were obtained in an international phase III development program, during which more than 1,000 patients in 15 countries were medicated with Polyphenon® E Ointment in different dosages.

Genital warts are benign, but painful and disfiguring skin tumors in the genital and anal areas. The sexually transmitted disease is caused by human papilloma viruses. Approximately 30 million people worldwide are infected by these viruses. Genital warts are one of the fastest spreading venereal diseases worldwide.

Outlook

In 2007, MediGene submitted marketing authorization applications in several European countries and plans to distribute the drug in some selected markets by the company's own sales force. MediGene is expecting the drug to be authorized in Europe toward the end of 2008.

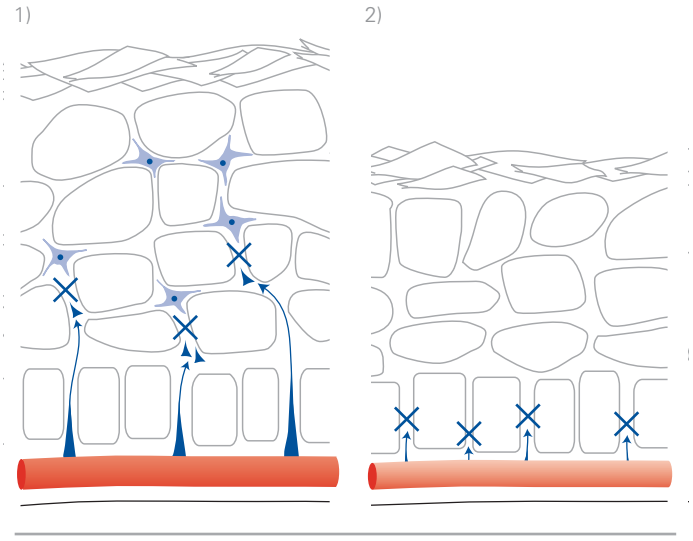
[1] Per year. MediGene will receive royalties from sales of product.
[2] Precursor of a specific type of skin cancer.

Oracea® (Yanikler™)

Skin diseases

Indication	Preclinic/ Research	Clinical phase I	Clinical phase II	Clinical phase III	Approval	Marketed	Peak sales potential[1] (in million €)
Rosacea							>20

Changes in inflammatory processes of the skin by Oracea®



Rosacea is caused by inflammation of the skin. Messengers ➤ attract immune cells ✦.

1) Oracea® ✕ blocks these signaling pathways.
2) Inflammation recedes.

An innovative therapeutic approach for a common skin disease

MediGene's dermatological drug Oracea® is already at an advanced stage of the approval process. Oracea® was developed for the treatment of the skin disease rosacea by the US dermatology company CollaGenex and successfully launched in the USA in July 2006. In December 2006, MediGene acquired the European marketing rights to Oracea®. Marketing authorization applications for a number of selected European countries were submitted in 2006. MediGene is currently establishing its own sales force for the commercialization of Oracea® as well as other future products, such as Veregen™.

Oracea® targets a very widespread skin disease, i. e. rosacea, a chronic inflammation of the facial skin, especially in the center part of the face. About 15 million people in Europe are affected by this disease. Rosacea is usually treated with antibiotics. However, the drugs currently applied not only combat rosacea, but also affect the body's normal bacteria. For this reason, medication has to be discontinued after a maximum period of eight weeks and, in most cases, the disease recurs afterwards. Oracea® capsules also contain an antibiotic, i. e. doxycycline. In contrast to other drugs for rosacea, however, this substance is released steadily and at a low dosage over a long period of time. This way, it can unfold its anti-inflammatory effect without destroying the body's normal bacteria, preventing numerous problems. Recent findings indicate that the risk of side effects decreases in comparison with higher dosages of Oracea®. Clinical trials have shown that the efficacy of Oracea® is superior to that of placebo and that it is extremely well tolerated. Therefore, Oracea® is the first drug for systemic long-term treatment for rosacea in the USA. Up to now, this drug is not available to patients in Europe.

Outlook

In the first half of 2008, MediGene expects Oracea® to be approved in some European countries. Initially, the company is planning to sell Oracea® in some selected European markets through its own sales force. For other European countries, MediGene is planning to enter into marketing partnerships. Market launch in Germany is expected in the second half of 2008. MediGene intends to sell Oracea® under the brand name Yanikler™.

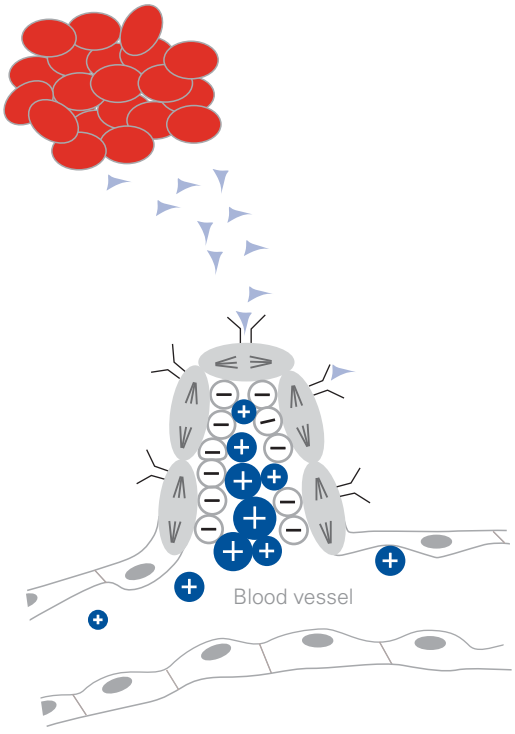
[1] Per year.

EndoTAG™-1

Cancer

Indication	Preclinic/ Research	Clinical phase I	Clinical phase II	Clinical phase III	Approval	Marketed	Peak sales potential[1] (in million €)
Pancreatic cancer							>200
Breast cancer							>1,000
Additional solid tumors							>400

EndoTAG™ attacking endothelial tumor cells



- Tumor cells
- Tumor releases signals inducing growth of blood vessels
- Endothelial cells divide, blood vessel grows towards tumor
- EndoTAG™ attacks activated endothelial cells and destroys blood vessel. Thereby the blood supply of the tumor is impaired

Starving out cancer cells

EndoTAG™-1 directly attacks those blood vessels that are needed for the growth of a tumor. If these blood vessels (the endothelial cells) are destroyed, the cancer cell does not receive sufficient oxygen and nutrients. Hence, the tumor is »starved«.

The drug candidate is based on the combination of lipids – i. e. fat molecules which also exist inside the cell membrane – and a therapeutic substance. In EndoTAG™, these components exist as »lipid complexes« or liposomes which can be pictured as minute, hollow globules. The therapeutic substance is embedded in these globules. In the case of EndoTAG™-1, this substance is Paclitaxel®, one of the most effective substances in chemotherapy. The EndoTAG™ liposomes are positively charged, enabling them to attach themselves selectively to the negatively charged, newly developing endothelial tumor cells (neovascular targeting) and to destroy them (vascular disrupting). This process is intended to suppress nutrient supply and inhibit further tumor growth.

With its novel mode of action, EndoTAG™ adds an innovative variant to the successful anti-angiogenesis approach (inhibition of vascularization). Moreover, EndoTAG™ offers a novel alternative to conventional chemotherapy. MediGene assumes that direct destruction of the endothelial cells does not lead to any resistance to the therapeutic substance applied. This would solve a common problem inherent to existing therapies. In addition, the EndoTAG™ concept is expected to provide a wide range of applications. Principally, it could be suited for the treatment of all types of solid tumors which have their own vascularization.

EndoTAG™-1 is MediGene's first product candidate derived from the EndoTAG™ platform technology and is currently undergoing an extensive phase II program. In a trial with over 200 patients participating, EndoTAG™-1 is combined with the drug Gemcitabine. Positive intermediate results from this trial were published by MediGene at the end of 2006. In 2007, MediGene extended the development of EndoTAG™-1 and initiated a large-scale phase II trial for the treatment of hormone-resistant breast cancer. EndoTAG™-1 targets the treatment of severe types of cancer with high medical need.

Outlook

The most important efficacy data from the phase II trial in the indication pancreatic cancer are expected in the first half of 2008. The results of the trial in the indication breast cancer are expected in 2009. Provided that the development of the product progresses successfully, EndoTAG™-1 has a potential of more than 1 billion €.

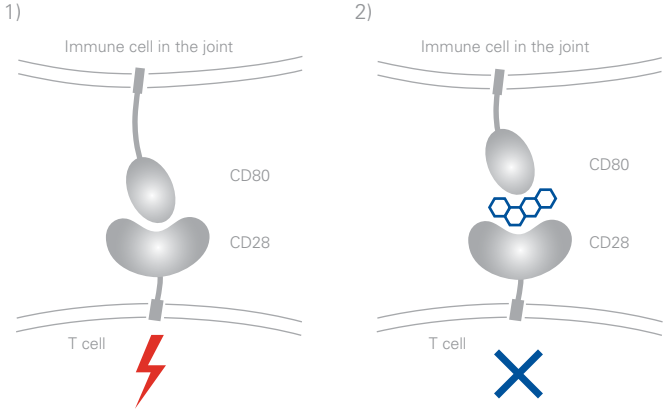
[1] Per year.

RhuDex®

Autoimmune diseases

Indication	Preclinic/ Research	Clinical phase I	Clinical phase II	Clinical phase III	Approval	Marketed	Peak sales potential[1] (in million €)
Rheumatoid arthritis							>1,000

RhuDex® acting as an anti-inflammatory agent



T cell activation by certain immune cells in the diseased joint is a key step in the onset of rheumatoid arthritis.

1) T cell activation requires interaction between the surface proteins CD80 and CD28
2) RhuDex® prevents the interaction between CD80 and CD28, thus acting as an anti-inflammatory agent

Orally available therapy for rheumatoid arthritis

With an estimated annual sales potential of more than 1 billion €, RhuDex® is regarded as a blockbuster drug candidate. It targets one of the most common diseases: rheumatoid arthritis. About 1% of the world population is affected by this systemic disease of the connective tissue. Inflammatory processes inside the joints lead to deformity, stiffness, and severe pain.

RhuDex® is designed to block the disease-causing mechanism at an extremely early stage. T cell activation, which is triggered by interaction between specific proteins on immune cell surfaces, is pivotal in the onset of rheumatoid arthritis. The CD80 protein plays a key role in this process. Its interaction with the CD28 protein, a receptor on the surface of T cells, is an essential step in T cell activation. RhuDex® can bind to CD80, prevent the interaction with CD28, and thus block an important signaling pathway. This is intended to block the inflammatory process, causing the disease to subside.

CD80 is a well-suited target for the treatment of rheumatoid arthritis. This was already verified by a successful drug using this approach. Aside from RhuDex®, the drug is administered by protracted infusions, whereas RhuDex® is administered orally. Since RhuDex® is the first orally available drug of this type, it is well-positioned to compete in this billion Euro market.

Outlook

In 2007, MediGene initiated a clinical phase IIa pilot trial with RhuDex®. In addition, the company managed to find a reformulation of the active ingredient which is crucial for the further development. The ongoing phase IIa trial is scheduled for completion in the first half of 2008. Based on the data obtained in this trial, MediGene intends to prepare a phase II trial with the new formulation of RhuDex® which should start early in 2009.

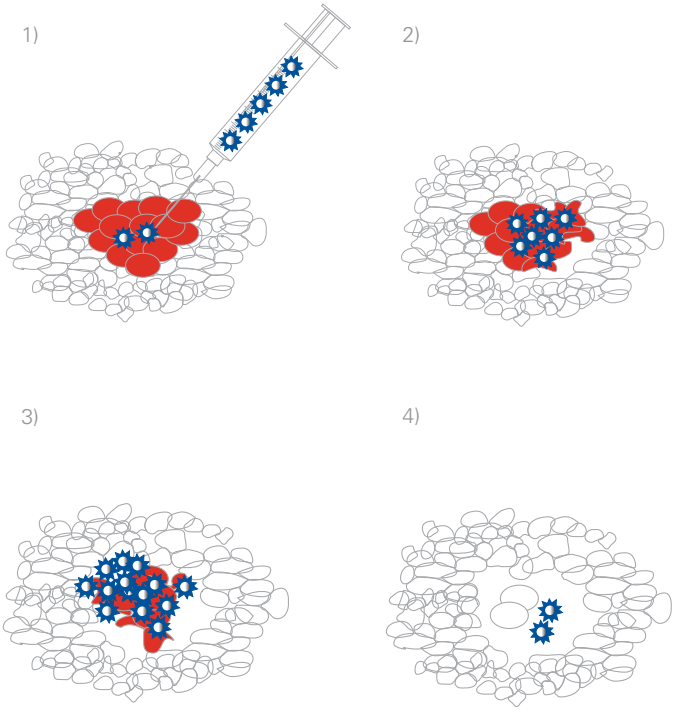
[1] Per year.

Oncolytic herpes simplex viruses (HSVs)

Cancer

	Indication	Preclinic/ Research	Clinical phase I	Clinical phase II	Clinical phase III	Approval	Marketed	Peak sales potential[1] (in million €)
NV1020	**Colon liver metastates**							>150
G207	**Glioblastoma**							>70

Oncolysis by means of HSV



[1] Oncolytic virus is applied to the tumor.
[2] Tumor cells support virus replication
[3] Tumor mass is selectively destroyed (»oncolysis«).
[4] Complete destruction of the tumor

Cancer-killing viruses

MediGene is developing cancer-killing viruses, »oncolytic viruses«, for the treatment of various types of cancer. These viruses are specific herpes simplex viruses, or HSVs, generally known as the cause of cold sores. MediGene uses these viruses, however, in a modified and »disarmed« form in order to make them utilizable as a therapeutic agent in humans. This has been achieved by switching off certain viral genes that normally enable the virus to multiply in healthy cells, which would in turn destroy these cells. As a result of this genetic modification, the HSVs are able to reproduce in tumor cells solely, since only these degenerated cells are able to compensate for the loss of the removed viral genes. Consequently, the virus is able to replicate in the tumor cells, selectively destroying them without harming healthy tissue.

This mechanism was verified in comprehensive laboratory experiments. If it also turns out to be effective in the ongoing trials with tumor patients, oncolytic HSVs may act more selectively and efficiently than conventional cancer therapies. In particular, they could provide a therapeutic alternative for the treatment of tumors that are inoperable or have developed a resistance to chemotherapy, radiotherapy, or antibody therapy. Possible synergistic effects in combining oncolytic HSV and standard therapies are already being investigated.

Preliminary clinical phase I trials with cancer patients have already yielded encouraging results. MediGene is investigating the virus NV1020 in a continuative phase I/II trial in the indication liver metastases developing from colorectal carcinoma. In this trial, NV1020 is combined with standard chemotherapy. MediGene published positive interim results from this trial in June 2007. The recruitment of a total of 31 patients was completed in September. Until now, two different types of these viruses, i. e. NV1020 and G207, have been derived from MediGene's HSV technology platform and tested in tumor patients.

Outlook

In 2008, MediGene is planning to publish the results of the phase II trial in the indication liver metastases from colorectal carcinoma.

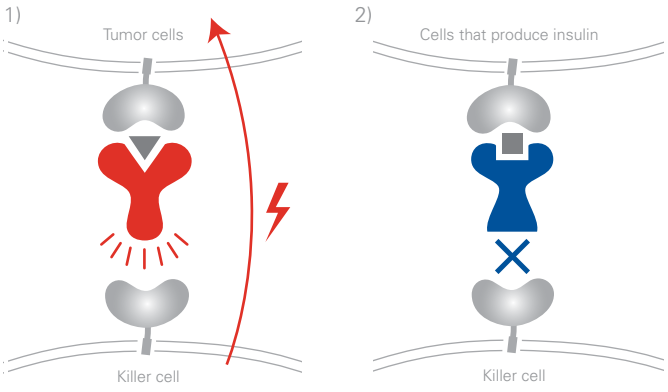
[1] Per year.

Soluble T cell receptors (mTCRs)

Cancer, autoimmune diseases

Indication	Preclinic/ Research	Clinical phase I	Clinical phase II	Clinical phase III	Approval	Marketed	Peak sales potential[1] (in million €)
Cancer and autoimmune diseases							>1,000

mTCR recognize antigens



mTCRs recognize antigens ▼, ■, that are presented on the cell surface. Each type of mTCR can stimulate a different effect:

1) EsoDex® stimulates killing of tumor cells
2) HiDex® prevents destruction of cells that produce insulin

A new generation of antigen-specific substances

MediGene's monoclonal T cell receptors (mTCRs) target the immune system, i.e. they activate or stop certain immune system processes, and therefore they can be applied in combating a variety of diseases. The mTCR technology permits novel approaches in therapy for cancer and autoimmune diseases by making the receptors on the important T cells utilizable as therapeutic agents.

Similar to antibodies that are already established in cancer therapy, T cell receptors target antigens. Antigens are characteristics recognized by the immune system and usually indicate a disease. Whereas antibodies target antigens outside the cells only, mTCRs also recognize antigens located inside the cells. This provides a therapeutic potential for mTCRs far beyond that of antibodies, since about three-quarters of the antigens that allow the identification of cancerous cells are located solely inside the cells.

In contrast to the endogenous T cell receptors that are tightly bound to the T cell surfaces, mTCRs move freely inside the body. These soluble T cell receptors are bound to different proteins in order to lend them control functions in the immune system. This fusion of a T cell receptor and a functional protein serves as an artificial adaptor that links specific players in the complex immune system in order to fight a disease.

One example from cancer therapy: the mTCR drug candidate EsoDex® is such an adaptor which recognizes tumor cells and shows the killer cells of the immune system the way. These killer cells are able to attack and destroy tumor cells. In some diseases, however, certain cells should be protected and not attacked. This is achieved, for instance, with mTCR HiDex™ which has been developed for the treatment of insulin-dependant diabetes. This adaptor recognizes the few remaining insulin-producing cells in a patient. Instead of activating killer cells, HiDex™ protects these precious cells. This way, a basic insulin supply should be maintained.

MediGene's T cell receptors are so highly innovative due to two properties. On one hand is the multitude of novel approaches to recognize specific cells such as cancerous cells and, on the other, the manifold modes of action they are able to mediate. mTCRs have been developed by Avidex in Abingdon/Oxford. With the acquisition of Avidex, MediGene acquired all rights to this technology. In 2006, a research cooperation was agreed upon with Sanofi-Pasteur. MediGene is developing the technology for therapeutic applications, whereas the vaccine manufacturer Sanofi-Pasteur applies the potential of mTCRs for vaccine validation.

Outlook

Several product candidates based on the mTCR technology, such as EsoDex® and HiDex®, are currently in the development stage. In order to focus research activities, MediGene is considering opportunities for the financing of this variety of projects by external investors, preferably by the spin-off of the program into an independent research company, with MediGene remaining a shareholder.

[1] Per year.

The share

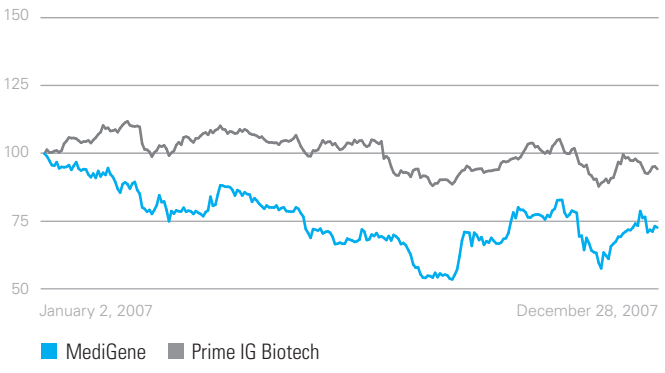
Development of share price

Within the biotech industry, the year 2007 was shaped by a difficult stock market environment. A number of companies in Germany and the USA suffered severe setbacks in development, which particularly influenced the share price performances in this sector.

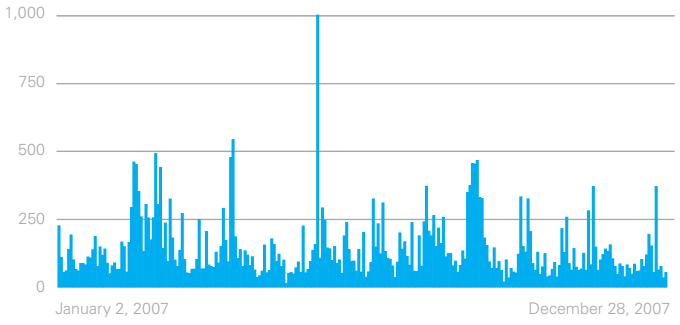
MediGene's company news in 2007 was almost exclusively of a positive nature, e.g. increasing Eligard® sales, the successful initiation of a clinical phase II trial of the blockbuster candidate EndoTAG®-1, and the U.S. market launch of our drug Veregen™, which represents a breakthrough success for MediGene. However, the MediGene share price showed a downward movement, just like the entire biotech industry. The MediGene share started the year 2007 at a price of 7.36 €. During January and February, the share price moved downward, contrary to the reference index Prime IG Biotech. The performance afterwards was largely parallel, until the end of the year. After the announcement at the end of August that the approval of Oracea™ had been postponed, the share price reached its yearly low of 3.94 €. From September to the end of the year, the share price recovered. The market launch of Veregen™ in December 2007 provided another positive stimulus for the share price. The year-end closing price was 5.35 €, which equals a loss of 23%. The reference index Prime IG Biotechnology closed with a loss for the year of 5%. Along with service enterprises, ancillary companies, and platform technology suppliers, this sector index also includes pharmaceutical enterprises. The performance of this subgroup was significantly weaker over the year than the Prime IG Biotech. The MediGene share was one of the strongest shares within this subgroup in 2007. However, MediGene's management is highly dissatisfied with the share performance and is making every effort in terms of successful company development and exemplary investor relations activities, in order to contribute to a positive development of the MediGene share.

Share price 2007

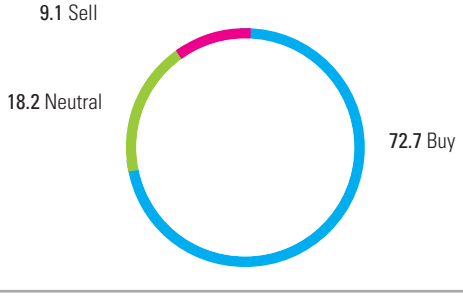
(January 2, 2007 7,36 € indexed to 100)



Market volume
In thousands

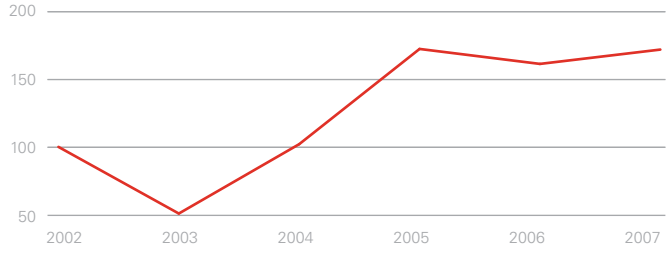


Analysts' assessment of the MediGene share[1)]
In %



[1)] as per January 2008
Based on 11 Analyst assessments

Development of market capitalization
In million €



Broad analyst coverage

Being one of the major biotech companies in Europe, MediGene is actively monitored by a large number of financial analysts from renowned investment banks at home and abroad. In numerous reports, they thoroughly analyzed our company and its products and technologies. Independent analyses are an important element in addressing potential investors successfully.

Intense investor relations activities

In 2007, we intensified our investor relations activities, in order to keep investors, financial analysts, and the business press informed about the development of MediGene AG. In addition to our press and analyst conferences, we gave numerous interviews and conducted discussions with investors at home and abroad.

In 2007, the following investment banks reported on MediGene

CODE Securities	Dr Samir Devani
Vontobel Securities AG	Dr Markus Metzger
Viscardi Securities GmbH	Robert Willis, Isabell Friedrichs, Dr Liming Ge
DZ Bank	Dr Patrick Fuchs
Goldman Sachs International	Dr Stephen McGarry, Linden Townson
Landesbank Baden-Württemberg	Dr Hanns Frohnmeyer
Concord Effekten Aktiengesellschaft	Dr Roger Becker, Rüdiger Holzammer
Crédit Agricole Cheuvreux	Stefan Mühlbauer
Oppenheim Research GmbH	Dr Christian Peter
Morgan Stanley Dean Witter	Dr Karl D. Bradshaw, Dr Diana Na
WestLB AG	Cornelia Thomas
SNS Securities N.V.	Marcel Wijma

In 2007, MediGene presented the company at the following international investor conferences

JP Morgan Healthcare Conference	San Francisco
BIO CEO & Investor Conference	New York
Deutsche Bank Health Care Conference	Washington, DC
Rodman & Renshaw Conference	Monaco
Bio Equity	Glasgow
Needham Healthcare Conference	New York
Sal. Oppenheim – European Healthcare Investors Conference	Frankfurt
Goldman Sachs Biotech Symposium	London
Rodman & Renshaw Investor Conference	New York

Award for annual report

In 2007, MediGene's annual report of the preceding year was once again awarded a prize at the renowned LACP Annual Report Competition in the USA. On the occasion of this major international competition, MediGene again won the Gold Award in the biotechnology category. This was the latest in a series of awards MediGene received for transparent reporting to shareholders and the public.

Capital increases

In February 2007, MediGene successfully closed a capital increase. The company placed 2,062,040 new shares at an issue price of 6.10 € each with institutional investors in Germany and other European countries. On September 10, 2007, MediGene issued 3,084,282 new shares at 5.05 € each. These shares were subscribed to by Santo Holding (Germany) GmbH exclusively, which makes Santo Holding (Germany) GmbH the largest shareholder in MediGene AG. In February 2008, Dr. Thomas Strüngmann joined the Supervisory Board of MediGene AG as representative of Santo Holding (Deutschland) GmbH.

Development of shareholder structure

During 2007, the shareholder structure of MediGene AG noticeably shifted in favor of institutional investors. The portion of their holdings was 60.1% (2006: 36.9%). The portion of private investors decreased accordingly, from 60.9% in the preceding year to 36.4% to date. Directors' holdings amounted to 2.7% (2006: 3.0%). The shareholder structure by country remained nearly unchanged. As in the preceding year, most of the shares, i.e. 59.7%, are held by investors in Germany, followed by the UK with 20.2% of the shares (2006: 59.8% and 20.4%, respectively).

Share Data

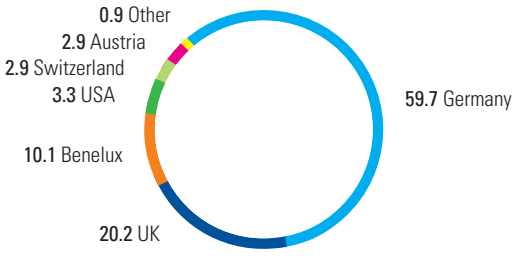
Stock ID code	MDG
Securities identification number	502 090
ISIN – International Securities Identification Code	DE000 5020903
Common Code	1107 3026
CUSIP	993 906 FV5
Reuters symbol	MDGGn
Bloomberg symbol	MDG
Market segment	Prime Standard
Indices	Prime All Share, Prime IG Biotechnology
Trading floors	XETRA, Berlin, Bremen, Düsseldorf, Frankfurt, Hamburg, Hannover, München, Stuttgart
Designated Sponsors	Concord Effecten AG, WestLB AG

Key figures per share

In €	2007	2006
52 weeks high	**7.36**	9.23
52 weeks low	**3.94**	5.32
Opening price	**7.36**	8.35
Year end/closing price	**5.35**	6.97
Mean share price	**5.58**	7.15
Weighted average number of shares outstanding	**31,541,103**	22,410,901
Average trading volume in shares	**144,325**	164,001
Average market capitalization in million €	**176**	160
Total numbers of shares outstanding as at Dec. 31	**33,946,481**	28,653,630
Dividend per share	**0.00**	0.00
Cashflow per share from operating activities	**-0.95**	-0.31
Equity per share	**3.04**	3.79

Shareholder structure by country[1)]

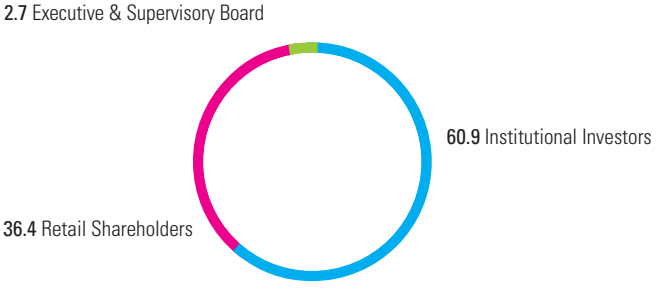
In %



[1)] as per December 31, 2007

Shareholder structure by investortype[1)]

In %



[1)] as per December 31, 2007

Corporate Governance

MediGene's Executive and Supervisory Boards are aware of the company's responsibility towards its shareholders, employees, and business partners. For the purpose of a value-oriented corporate management, MediGene has therefore implemented the German Corporate Governance Code (as amended on June 14, 2007) to a great extent, thereby surpassing legal provisions. The recommendations and proposals made by a commission set up by the German Federal Government are comprised of internationally and nationally accepted standards regarding good and responsible management of companies.

Corporate Governance principles provide regulations for the following areas:

- **Describing the major rights of the shareholders,**
- **Defining clear management principles and the respective responsibilities for the individual company bodies,**
- **Regulating the interaction between these bodies,**
- **Demanding straightforward and transparent communication with the public, and**
- **Requiring conscientious and reliable accounting and auditing.**

Corporate Governance Code and Declaration of Compliance

MediGene's Corporate Governance Code is accessible on our website at www.medigene.de/englisch/corporate_governance). This also applies to the official Declaration of Compliance by MediGene's Executive and Supervisory Boards. With regard to a few individual items MediGene has, after thorough deliberation, decided not to comply with the code. These items are specified in the declaration. The reasons for non-compliance are stated in the report (see page 32). The implementation of Corporate Governance at MediGene includes, among other things:

Relations with the company's shareholders

MediGene AG respects the rights of its shareholders and guarantees the exercise of these rights to the best of its ability within the given statutory framework. In particular, these rights include free purchase and sale of shares, equal voting rights for each share (one share – one vote), participation in the annual stockholders' meeting, and exercise of the voting right and appropriate fulfillment of shareholders' information requirements.

Communication with the public

In relaying information to people outside the enterprise, the Executive Board observes the principles of transparency, promptness, openness, comprehensibility, and due equal treatment of shareholders. For that purpose, the company provides information such as press releases, financial and conference calendars, annual and quarterly reports, notifiable transactions, and Corporate Governance on its website www.medigene.com under the headings »News« and »Investor Relations«.

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 governing law, the Articles of Incorporation, and the Executive Board Rules of Procedure. The Executive Board manages the enterprise at its own responsibility. In doing so, it is obliged to act in the enterprise's best interests and committed to developing sustained enterprise value.

Supervisory Board
It is the task of the Supervisory Board of MediGene AG to appoint the Executive Board members, advise them regularly, and supervise and support the management and 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 Chairman of the Supervisory Board keeps in regular contact with the Executive Board, especially with the Chief Executive Officer. The Executive Board coordinates the enterprise's strategic alignment with the Supervisory Board and discusses the current state of strategy implementation and the company's risk management with it at regular intervals. For transactions of fundamental importance, the Supervisory Bard specifies in the Executive Board Rules of Procedure provisions that are subject to the Supervisory Board's approval. This includes decisions or measures that fundamentally change the company's assets or financial or earnings situation.

Remuneration of Executive and Supervisory Board members
In the version from June 14, 2007, paragraph 4.2.5., the Corporate Governance Code recommends the inclusion of the compensation report as a part of the Corporate Governance Report. However, the German Commercial Code, § 289, paragraph II no. 5 stipulates a compensation report on the Executive Board members' remuneration, although the requirements stipulated in the Corporate Governance Code exceed the legal provision, particularly with regard to the individualized details. In order to comply with both the legal and the Corporate Governance Code requirements, and facilitate a transparent as well as intelligible presentation, the remuneration of the company organs is reported in the »Compensation Report« chapter of the Group Management's Discussion and Analysis, implementing the guidelines of the Corporate Governance Code. Remuneration of Executive and Supervisory Board members is reported on pages 97 f of the annual report and accessible on the company's website www.medigene.com. The information is individualized and itemized. The Executive Board members' remuneration is comprised of fixed and variable components, as well as performance incentives to increase the value of the company over the long term. The criteria for the variable compensation components are laid down in advance each year. The long-term compensation components consist of stock options. The intention of this is to create performance incentives geared towards lasting corporate success. The targets that form the basis of these incentives may not be subsequently changed.

The Supervisory Board members' total compensation is comprised of a fixed remuneration and meeting attendance fees. Both chairmanship and deputy chairmanship of the Supervisory Board are taken into account in the evaluation of the Supervisory Board members' scope of activities.

Provident risk management
A structured risk management system oriented toward practical needs helps the enterprise identify risks at an early stage and take corrective action promptly. On pages 47 ff of the Group Management's Discussion and Analysis, we report on MediGene's risk management system and the current business risks.

Reporting and audit of annual financial statements
MediGene informs shareholders and third parties regularly by means of consolidated financial statements and interim reports prepared during the financial year. Consolidated reporting complies with the International Financial Accounting Standards (IFRS). For corporate law purposes (calculation of dividends, creditor protection), annual financial statements, which also form the basis for taxation, are prepared in accordance with national regulations (German Commercial Code). The consolidated financial statements are reviewed by the auditors and the Supervisory Board. The Supervisory Board issues the audit assignment and concludes a fee agreement with the auditors. The auditors participate in the Supervisory Board's discussions on the annual financial statements and consolidated financial statements and report the basic audit results.

Stock option plan and similar securities-based incentive systems

2003 stock option plan
The 2003 stock option plan provided for the issuance of option rights to the company's Executive Board members and employees. The exercise price to be paid for the subscription to a MediGene share upon the exercising of the option right amounts to 120% of the basic value. This basic value corresponds either to the average closing price of the MediGene share of the past sixty trading days prior to the date of issuance of the respective options or to the opening price of the MediGene share on the allotment date, whichever value is higher. The holders of subscrip-

tion rights cannot exercise the option rights before expiration of a waiting period of two years starting from the allotment date of the respective subscription right. The option rights have a term of ten years. No more options will be issued from the 2003 stock option plan. The corporation is neither legally nor factually obliged to repurchase any options or compensate in cash. For further details on the 2003 stock option plan, please see pages 81 ff of the annual report.

2006 stock option plan

During the annual stockholders' meeting on June 2, 2006, the Executive Board was authorized to issue, with the Supervisory Board's consent, stock options to the company's executives and employees (2006 stock option plan). From this stock option plan, 263,708 options were granted in 2007. A two-year waiting period prior to conversion into shares must be observed. The option right may be exercised for a maximum period of 10 years after the option right has come into force. The exercise price to be paid for the subscription to a MediGene share upon the exercising of the option right equals the unweighted average of the closing prices of the company's shares of the last 30 trading days prior to the respective option right's allotment date. As a prerequisite for the exercise of an option right, the unweighted average of the closing prices of the company's shares of the last 30 trading days prior to the first day of the respective exercise period in which the option is exercised must equal at least 120% of the exercise price. The stock option program starts on the registration date of the authorized capital and expires on June 1, 2011. The subscription right holders may not exercise the option rights before expiry of a two-year waiting period starting from the allotment date. The option rights have a term of ten years.

2007 stock option plan

By shareholders' resolution on June 2, 2006, the Executive Board was not authorized to grant any stock options to the employees of affiliated companies at home or abroad, since this was not applicable at that time. Later, MediGene acquired the UK-based company Avidex Ltd. In order to create the opportunity to grant also Avidex's approximately 40 employees MediGene stock options, the existing 2006 shareholders' resolution was replaced by a new shareholders' resolution during the annual stockholders' meeting on May 25, 2007. This new resolution provides for the possibility to grant stock options to employees of affiliated companies at home and abroad. In all remaining items, the 2007 stock option plan corresponds to the 2006 stock option plan (see pages 81 ff).

Earlier employees' stock ownership programs

In addition to the 2006 and 2007 stock option plans, subscription rights from the years 1997 and 1998 still exist for convertible bonds as well as authorizations for the issue of options to employees and Executive and Supervisory Board members. For further details on MediGene's employee stock ownership program, please see pages 81 ff of the annual report.

Directors' Dealings

Under section 15 a of the Securities Trading Act, the Executive and Supervisory Board members of MediGene AG, as well as persons who have a close relationship with these members (family members), are obligated to report any trading in MediGene shares. In addition to the purchase and sale of MediGene shares, any transactions in securities relating to MediGene shares (e.g. the sale or purchase of options on MediGene shares) must be reported. The company must be notified about such transactions within five working days and has to publish them immediately. This obligation is not applicable if the total value of the trading does not exceed 5,000 € during one calendar year.

The following securities transactions carried out in 2007 were subject to notification:

Director's Dealings in 2007

Name of Board Member	Function	Classification of share	ISIN	Transaction	Place of transaction	Date of transaction	Price per share in €	Number of shares	Deal volume in €
Dr. Ulrich Delvos	Executive Board Member	Share	DE0005020903	Purchase	XETRA	Aug.13, 2007	4.00	2,000	8,041.12
Dr. Thomas Klaue	Executive Board Member	Share	DE0005020903	Purchase	XETRA	Aug. 17, 2007	3.99	3,000	12,101.38
James Noble	Supervisory Board Member	Share	DE0005020903	Sale	London	Aug. 22, 2007	4.03	75,000	302,250.00
Prof. Dr. Ernst Ludwig Winnacker	Chairman of the Supervisory Board	Share	DE0005020903	Purchase	Frankfurt	Aug. 31, 2007	4.23	5,000	21,381.00
Dr. Manfred Scholz	Supervisory Board Member	Share	DE0005020903	Sale	XETRA	Sept. 25, 2007	4.86	1,029	4,972.44
Dr. Manfred Scholz	Supervisory Board Member	Share	DE0005020903	Sale	XETRA	Sept. 25, 2007	4.87	917	4,437.72
Dr. Manfred Scholz	Supervisory Board Member	Share	DE0005020903	Sale	XETRA	Sept. 25, 2007	4.87	1,027	4,972.99
Dr. Manfred Scholz	Supervisory Board Member	Share	DE0005020903	Sale	XETRA	Sept. 25, 2007	4.87	1,027	4,972.99

Non-compliance with the recommendations of the German Corporate Governance Code

The following specifies the items in which we do not comply with the recommendations of the German Corporate Governance Code:

Deductible in the case of D&O insurances

With regard to the D&O insurance in effect for the Executive and Supervisory Board members of MediGene AG, no deductible has been agreed upon, other than any damages claimed in the U.S.A. or in compliance with applicable U.S. law. Both the Executive and Supervisory Boards believe that the sense of responsibility applied in the fulfillment of their duties is fully guaranteed without any such deductible.

Reference to ambitious relevant comparative parameters in the course of the issue of stock options

The reference to ambitious relevant comparative parameters recommended by the German Corporate Governance Code is not included in the stock option plan of MediGene AG. MediGene's 2006 stock option plan stipulates that upon exercising of the option right, an exercise price must be paid for the purchase of a share. This exercise price equals the unweighted average of the closing prices of the company's shares of the last 30 trading days prior to the respective option right's allotment date. As a prerequisite for the exercise of an option right, the unweighted average of the closing prices of the company's shares of the last 30 trading days prior to the first day of the respective exercise period in which the option is exercised must equal at least 120% of the exercise price. The stock option plan does not include any comparative parameters, e.g. a reference to the performance of share indexes. The Supervisory Board is of the opinion that the stock option program defines sufficiently demanding success hurdles, as an absolute increase in the value of the company will benefit both the company itself and its shareholders.

Possibility of limitation (cap) regarding variable long-term remuneration components

No such caps have been agreed upon with the Executive Board members of MediGene AG. The Supervisory Board believes that such an agreement would lead to an unacceptable degree of insecurity for the Executive Board members and the corporation, since it is impossible to predict in which cases the criteria of an extraordinary, unforeseen development would be fulfilled.

Age limits for Executive and Supervisory Board members

There is no age limit for the Executive and Supervisory Board members of MediGene AG. Both the Executive and Supervisory Boards consider such age limits to be an inappropriate constraint of the shareholders' right to elect the Supervisory Board members and a restriction of the Supervisory Board with regard to the choice of qualified Executive Board members. The age structure in the Supervisory Board and the Executive Board is well-balanced without any such stipulated age limit.

Formation of a nomination committee

The German Corporate Governance Code recommends the formation of a nomination committee by the Supervisory Board composed exclusively of shareholder representatives which proposes suitable candidates to the Supervisory Board for recommendation to the annual stockholders meeting. Up to now, such a nomination committee has not been formed by the Supervisory Board of MediGene AG.

Consideration of committee work in the compensation of Supervisory Board members

The membership in Supervisory Board committees is not taken into consideration for the remuneration of Supervisory Board members of MediGene AG. Both the Executive and Supervisory Boards believe that the Supervisory Board members show a high degree of commitment in their committee work without any such regulation. The members of the Supervisory Board believe that in view of the overall size of the Supervisory Board it is not necessary or wise to form any additional committees and that the the Supervisory Board is able to perform this task by itself without any loss of efficiency.

Performance-related remuneration of the Supervisory Board members

The Supervisory Board members of MediGene AG do not receive performance-related remuneration. Due to recent developments in legislation, MediGene is abstaining from continuing the performance-related remuneration for Supervisory Board members in the form of convertible bonds.

All other recommendations and proposals of the German Corporate Governance Code have been implemented in their entirety. MediGene has appointed a Corporate Governance Representative within the company to report amendments to and implementation of the German Corporate Governance Code to the Executive and Supervisory Boards at least once a year. This way, we ensure the continuous observance of these principles in our company. By means of analysis, supervision, and transparency, MediGene is laying the foundations for fair and efficient corporate management. This will also remain our standard in the future.

Financial statements

Group Management's Discussion and Analysis (MD&A)

of MediGene AG, Martinsried/Planegg as per December 31, 2007

- **Total revenue: 23.9 million € (2006: 31.2 million €)**
- **Net loss: 29.9 million € (2006: 6.9 million €)**
- **Average monthly net cash burn rate: 2.8 million € (2006: 0.2 million €)**
- **Cash and cash equivalents: 46.5 million € (2006: 52.5 million €)**

Company overview

MediGene AG, Martinsried, (hereinafter also referred to as MediGene) is a biopharmaceutical company which focuses on the research, development, and commercialization of innovative drugs, concentrating on indications of great medical necessity and their associated substantial commercial interest. Its research and development activities center upon cancer and autoimmune diseases, while its sales and marketing activities focus on dermatology.

Organizational and legal structure of the MediGene Group

MediGene AG was founded in 1994 in Martinsried near Munich, Germany. In 1996, the company was transformed into a stock corporation. The company's headquarters are located at Lochhamer Straße 11, 82152 Martinsried, Germany. The company is registered in the Commercial Register of Munich Local Court under HRB 115761. MediGene AG has been a listed company since June 2000 (German Stock Exchange: Prime Standard; SIN 502090; code MDG).

In addition to the parent company, MediGene AG in Martinsried, the MediGene Group includes two wholly owned subsidiaries, MediGene, Inc., San Diego, USA and MediGene Ltd., Abingdon, Oxfordshire, United Kingdom. The subsidiaries were acquired in 2001 (MediGene, Inc., USA) and 2006 (MediGene Ltd., United Kingdom) respectively. The Group is managed by the Executive Board of the parent company, MediGene AG. The executive bodies of the subsidiaries report directly to the Group's Executive Board.

Segments and major locations

The MediGene Group's business activities are comprised of the two market segments »Biopharma« and »Specialty Pharma.« The geographical segmentation differentiates between the segments USA and Europe. In addition to the Group headquarters in Martinsried near Munich, the company maintains branch offices in Abingdon, Oxfordshire, UK and San Diego, California, USA.

Products and markets

MediGene's first drug on the market, the cancer drug Eligard®, is now available in most European countries and is marketed by the partner company Astellas Pharma Europe Ltd. (hereinafter »Astellas Pharma«), Staines, UK. The drug is offered in the form of one-month, three-month, and six-month depot formulations for the treatment of prostate cancer. Eligard® is currently the only prostate cancer drug in Europe that is being offered in a six-month dosage.

A second drug, Polyphenon® E Ointment, was approved for marketing under the name of Veregen™ by the US regulatory authority in 2006. The compound was launched on the US market as scheduled by MediGene's marketing partner Bradley Pharmaceuticals, Inc. (hereinafter »Bradley«), Fairfield, New Jersey, USA, in December 2007. In addition, MediGene submitted applications for authorization to market Polyphenon® E Ointment for the treatment of genital warts to the regulatory authorities in Germany, Austria, and Spain in the first quarter of 2007. Authorization in these countries should then serve as a reference for authorization proceedings elsewhere in Europe. An initial decision on the authorization application is expected in 2008. Genital warts are among the most common and fastest-spreading sexually transmitted diseases in the world. They are benign, but contagious and disfiguring skin tumors in the genital and anal regions which are highly painful and usually difficult to treat. Approximately 14 million people in North America and 15 million in Europe are infected with human papilloma viruses (HPV 6 or 11), the viruses which causes genital warts.

At the end of 2006, MediGene secured the European marketing rights for Oracea®, a drug for treating the skin disease rosacea, from the US-based company CollaGenex Pharmaceuticals, Inc. (hereinafter »CollaGenex), Newtown, Pennsylvania, USA. The decision on the authorization application by the European health authorities is expected in the second quarter of 2008. Like MediGene's Polyphenon® E Ointment, Oracea® is prescribed first and foremost by dermatologists, which means that the two products can be marketed together. MediGene will initially focus on a small number of high-potential European markets while seeking distribution partnerships for the other European countries.

MediGene also has a broad research and development portfolio in the fields of cancer and autoimmune diseases. In the oncological area, EndoTAG™-1 and the oncolytic herpes simplex

viruses G207 and NV1020 are already at the clinical development stage. In the field of autoimmune diseases, the drug candidate RhuDex® is undergoing clinical trials in the rheumatoid arthritis. Rheumatoid arthritis is a chronic inflammatory disease that affects 1% of the world's population. MediGene products at the preclinical or research stage include drug candidates based on mTCR technology and the L1 Project for the development of a therapeutic monoclonal antibody to treat ovarian cancer.

In addition, MediGene is pressing ahead in designing its own innovative technology platforms for the development of active compounds, including EndoTAG™ technology and soluble monoclonal t cell receptors (mTCRs).

Competitors

The MediGene Group operates on a highly competitive market which is shaped primarily by the results of competitors' research and development activities and, increasingly, also by their product marketing skills. The company has many competitors on a global level. These competitors include biopharmaceutical, pharmaceutical, and biotechnology companies as well as universities and other research institutes. From the corporation's point of view, a large number of companies are actively involved in the development and commercialization of comparable projects and products in the fields of cancer, autoimmune diseases, and dermatology.

Cooperations and licensing agreements

Marketing of Eligard® at the center of partnership with Astellas Pharma Europe Ltd.

Since January 2004, MediGene has maintained a partnership with the pharmaceutical group Astellas Pharma for the commercialization of the cancer drug Eligard® in Europe. Astellas Pharma, a leading European pharmaceutical company in the field of urology, is handling the marketing and distribution of Eligard®. In addition to a number of one-off payments already received, MediGene will also receive a share in the revenue generated by Eligard®. Milestone payments still outstanding depend on the attainment of particular sales targets. The validity of the contract corresponds to the terms of the European patents up to 2021.

Licensing agreement with the US company Bradley for marketing Veregen™ (Polyphenon® E Ointment) in the US

MediGene established a partnership with Bradley, a US-based specialty pharmaceutical company which specializes in dermatology, for marketing Polyphenon® E Ointment in the United States. The validity of the contract corresponds to the patent term(s), i.e. at least up to 2017. Bradley will market and distribute the ointment for treating genital warts in the United States.

Depending on specific milestones being achieved, MediGene will receive successive payments with a total volume of up to 69 million USD, 19 million USD of which was already collected in 2006. In addition, MediGene will have a share in Veregen™ sales. Milestone payments are linked to progress in the development, market authorization, and marketing of Veregen™ for the indications genital warts and actinic keratosis and to certain sales targets being achieved. Within the agreed development partnership, Bradley will cover the bulk of the costs incurred if Veregen™ is developed for additional dermatological indications. MediGene has the right of use for all development results outside the United States. In the US, Bradley holds the marketing rights for Veregen™ for all skin diseases.

Licensing agreement with the US company CollaGenex on European marketing rights for the dermatological product Oracea®

MediGene has acquired the European marketing rights for Oracea® from the US specialty pharmaceutical company CollaGenex. The drug for the treatment of the skin disease rosacea is at an advanced stage of the authorization process in Europe, in the US it has already gained FDA approval and has been launched. In addition to a one-off payment already received, CollaGenex is entitled to a share in Oracea® sales as well as milestone payments on the attainment of specified sales targets. The term of the contract will match those of the Oracea® patents in Europe up to 2022.

Other licensing agreements

In July 2006, MediGene agreed on a cooperation with the German Cancer Research Center (DKFZ) in Heidelberg. Its purpose is the development of a therapeutic monoclonal antibody against the L1 protein found specifically on cell surfaces of malignant ovarian and endometrial tumors (ovarian and uterine carcinoma). An initial two-year cooperation is envisaged, after which MediGene has the option of acquiring an exclusive worldwide license for the application of anti-L1 antibodies in tumor therapeutics.

In December 2007, MediGene entered into an agreement with the South Korean company Celltrion on cooperation in the development and commercialization of a monoclonal anti-L1 antibody for the treatment of various forms of cancer. Within the scope of the agreement, Celltrion covers the costs and handles process development and the production of the antibody up to and including clinical phase II. In return, Celltrion has received the exclusive development and marketing rights for Asia, including Japan, along with the option for the worldwide production rights for testing material for phase III studies and for the product being marketed. MediGene retains the development and marketing rights for all countries outside of Asia, particularly in Europe and the United States. The cooperation with Celltrion will become effective on the condition that MediGene exercises the aforementioned option to acquire the exclusive worldwide license from the German Cancer Research Center to apply anti-L1 antibodies in tumor therapeutics.

At the end of 2006, MediGene and the pharmaceutical company Sanofi Pasteur Ltd. (hereinafter »Sanofi Pasteur«), Toronto, Canada, agreed on a research cooperation for the development of monoclonal t cell receptors for the validation of vaccines. A test of this kind is important for the development and clinical trials of vaccines. Sanofi Pasteur will cover any research costs incurred for this project.

In the spring of 2006, MediGene granted the US-based Virionics Corporation licenses to utilize the CVLP-Vaccine program. In return, MediGene is to receive a stake of up to 15% in Virionics in a number of stages. If development is successful, MediGene can receive shares in sales revenue and milestone payments arising from third-party sublicensing. MediGene retains the European marketing rights for successfully developed drugs.

State of the product portfolio and research and development activities

Eligard®

The drug Eligard® is now marketed in most European countries via the partner company Astellas Pharma. In early March 2007, MediGene announced that the six-month dosage of Eligard® had been launched on the German market. The Europe-wide process for the authorization of this dosage was concluded positively in August 2007. As soon as this decision has been implemented nationally within the individual countries, the six-month dosage can be sold in other European countries as well.

Polyphenon® E Ointment/Veregen™

At the end of 2006, another drug, Polyphenon® E Ointment, was granted market authorization under the name of Veregen™ from the US drug authorization authority, the FDA. The drug was launched on the US market as scheduled by MediGene's marketing partner Bradley in December 2007. In the first quarter of 2007, MediGene also submitted applications for the market authorization of Polyphenon® E Ointment for the treatment of genital warts to the authorization authorities in Germany, Austria, and Spain. Authorization in these countries should then serve as a reference for authorization proceedings elsewhere in Europe. An initial decision on the authorization application is expected in 2008.

Oracea®

In December 2006, MediGene acquired the European marketing rights for Oracea® from the US specialty pharmaceutical company CollaGenex. The application for market authorization has been submitted in nine European countries to date. The nine countries involved in decentralized proceedings referred to the Committee for Medicinal Products for Human Use, which is responsible for central authorization proceedings in Europe. This body will make its decision on market authorization for Oracea® by a simple majority. MediGene is now expecting a decision on authorization in the second quarter of 2008. The market launch in Germany via the corporation's own sales organization is scheduled for approximately six months after approval.

EndoTAG™-based therapeutics

The results of a clinical phase II trial for the pancreatic cancer indication are expected for the drug candidate EndoTAG™-1 in the first half of 2008. As well as examining safety and compatibility, the trial focuses on the clinical efficacy of various dosages of EndoTAG™-1 in combination with Gemzar®, a cytostatic already approved for the treatment of pancreatic cancer. More than 200 patients have been included in the trial. In December 2006, MediGene reported on positive interim results from this ongoing trial. The data refers to 47 patients and shows a good safety profile along with the first preliminary indications regarding the efficacy of EndoTAG™-1 in combination with the cancer drug Gemzar®. The European Commission has confirmed the recommendation by the European Agency for the Evaluation of Medicinal Products (EMEA) that EndoTAG™-1 should be granted orphan drug status for the pancreatic cancer indication. Orphan drug status guarantees market exclusiveness within the European Union for a ten-year period after authorization has been granted.

In mid-April 2007, MediGene began a phase II trial with the drug candidate EndoTAG™-1 for the treatment of triple receptor negative breast cancer. The objectives of the trial are to examine the efficacy of EndoTAG™-1 in the treatment of this highly aggressive form of cancer and to generate additional data on drug safety. The trial is scheduled to include 135 patients and will be conducted at more than 20 centers in different European countries. The final analysis of the trial is expected in 2009.

EndoTAG™-1 is a combination of the established active substance paclitaxel with a carrier system which deliberately brings the substance to the newly-formed blood vessels in the tumor. The destruction of the tumor's blood vessels is designed to reduce the flow of nutrients and thereby »starve« the tumor. The targeted enrichment of the active ingredient in the tumor is also geared towards achieving additional positive treatment results when the form of cancer is taxane sensitive.

RhuDex®

RhuDex® is an active compound for the treatment of rheumatoid arthritis. It is an orally administered CD80 antagonist that blocks the activation of $CD4^+$ t cells. RhuDex® works as an immunosuppressant and has an anti-inflammatory effect. RhuDex® has passed through all the preclinical development stages. The compatibility and safety of RhuDex® were examined in an initial clinical trial with healthy individuals using an early development formulation. In 2007, MediGene conducted a clinical phase II pilot trial in patients with rheumatoid arthritis using this formulation. At the same time, the active ingredient's dosage form was improved considerably, with the result that far higher serum levels of RhuDex® can be achieved with considerably less starting substance. On the basis of the clinical trials conducted so far, MediGene is currently preparing for a further clinical phase II trial with the new dosage form.

Drug candidates based on oncolytic herpes simplex virus technology (HSV)

In mid-September 2006, MediGene presented data from an interim analysis of the phase I/II trial on the cancer cell-killing virus NV1020 for the treatment of liver metastases derived from colorectal cancer. The results showed clear indications of efficacy among patients receiving the highest dosage level. The trial was continued with the maximum dosage level in a clinical phase II trial. Patients recruitment into this trial was completed in September 2007.

In 2005, MediGene began a clinical phase II trial at the University of Alabama in Birmingham, USA, on the oncolytic herpes simplex virus G207 for the treatment of malignant brain tumors. The trial examines the safety, compatibility, and efficacy trends shown by G207, as well as a possible synergistic effect in conjunction with radiotherapy.

Preclinical development projects

MediGene is currently in the preclinical and research stage of its development of drug candidates on the basis of mTCR technology, as well as the L1 project, a therapeutic monoclonal antibody to combat ovarian cancer.

Technology platforms

MediGene is additionally pressing ahead with the development of its own innovative technology platform for the development of active compounds, including EndoTAG™ technology and soluble monoclonal t cell receptors (mTCRs). Research into EndoTAG™ technology for the treatment of other diseases not involving tumors will benefit from public grants amounting to 1.8 million € through 2009. In the field of mTCR technology, MediGene has entered into cooperations with Sanofi Pasteur and the Juvenile Diabetes Research Foundation in the United States.

Capital increases

In February 2007, MediGene completed a capital increase against cash contributions. All in all, 2,062,040 new MediGene shares were placed with institutional investors in Germany and other European countries at an issue price of 6.10 € per share. On September 10, 2007, MediGene placed 3,084,282 further shares at a price of 5.05 € per share. These were all subscribed for by Santo Holding (Deutschland) GmbH, Stuttgart. This makes Santo Holding (Deutschland) GmbH the largest investor in MediGene AG.

General conditions

Partnerships and licensing agreements between pharmaceutical and biotechnology companies

With its technology and product portfolios, the MediGene Group is in an auspicious position to enter into strategic partnerships. The pharmaceutical and specialty pharmaceutical sector in particular has a need for innovative technology and products to sustain its past growth rates. In this respect there is a lack of new technologies and promising drugs with new modes of action. This deficiency within the pharmaceutical industry offers biopharmaceutical companies such as MediGene new potential for cooperation.

As well as granting licenses (»outlicensing«), MediGene is seeking to acquire more licenses for attractive products with a view to expanding its existing portfolio of market-ready drugs, which currently consists of Polyphenon® E Ointment and Oracea®. MediGene therefore constantly monitors the market for new developments and reviews individual product candidates as part of its license acquisition activities. The continuing process of consolidation and restructuring in the pharmaceutical and biopharmaceutical sector is creating additional opportunities to carry out this strategy.

Public grants

Research into EndoTAG™ technology for the treatment of other diseases not involving tumors is being allocated public grants totaling 1.8 million € for the period through 2009. In the 2007 financial year, a preclinical product candidate based on mTCR technology was supported financially by the Juvenile Diabetes Research Foundation, USA.

General conditions in the pharmaceutical market

Due to the persistent cost pressure on the providers of medical services, further legislation to reduce the cost of drugs may be the result, which could also affect the pharmaceutical and biopharmaceutical sector in Europe and the United States. The projected German healthcare reform envisages three new regulatory instruments for innovative pharmaceuticals: cost-benefit assessment, refund ceilings, and second medical opinions. MediGene expects cost-benefit assessments to play an increasing role with regard to cost refunds by health insurance companies for innovative drugs.

Interest and exchange rate trend

The level of interest on long-term government bonds influences the possibilities of obtaining corporate financing from external sources. The interest rate on long-term government bonds additionally influences the valuation of the MediGene Group's intangible assets. The estimates of the daily interest structure on the bond market published by the German Bundesbank show an increase from 3.99% (December 31, 2006) to 4.46% (December 31, 2007) in the interest rate for 10-year (hypothetical) zero bonds with no credit default risk. In its monthly report for December 2007, the Bundesbank is assuming that the current yield for long-term government bonds in Germany will average 4.1% in 2008 and 4.2% in 2009.

As part of its ordinary business operations, the MediGene Group conducts a variety of transactions in US dollars. In addition, particular financial and intangible assets are carried in US dollars or British pounds. The translation of these currencies into Euro is subject to exchange rate fluctuations. Within the 2007 reporting period, the Euro reference rate increased by approximately 12% from 1.3182 to 1.4705 US dollars (source: Dresdner Bank currency reference rates). With regard to the exchange rate between the US dollar and the Euro, the German Bundesbank is assuming that this will remain constant at 1.46 US dollar per Euro in the forecast period 2008 to 2009. For the period up to December 2008, financial institutions are expecting to see the British pound increase slightly in value to a range from 0.70 to 0.72 per Euro.

Analysis of assets, financial and income position

From the management's point of view, MediGene basically met the profit goals set for the year 2007. Total revenues were lower than expected but the operating result was better than planned. Overall, in the reporting period both, financial and assets position of the group, remained good. MediGenes liquid funds amounting to 46.5 million € as well as the sales income from the product Eligard®, which increased again substantially in the business year 2007, form a sound basis for the future development of the company.

Assets position

Development of assets and capital structure

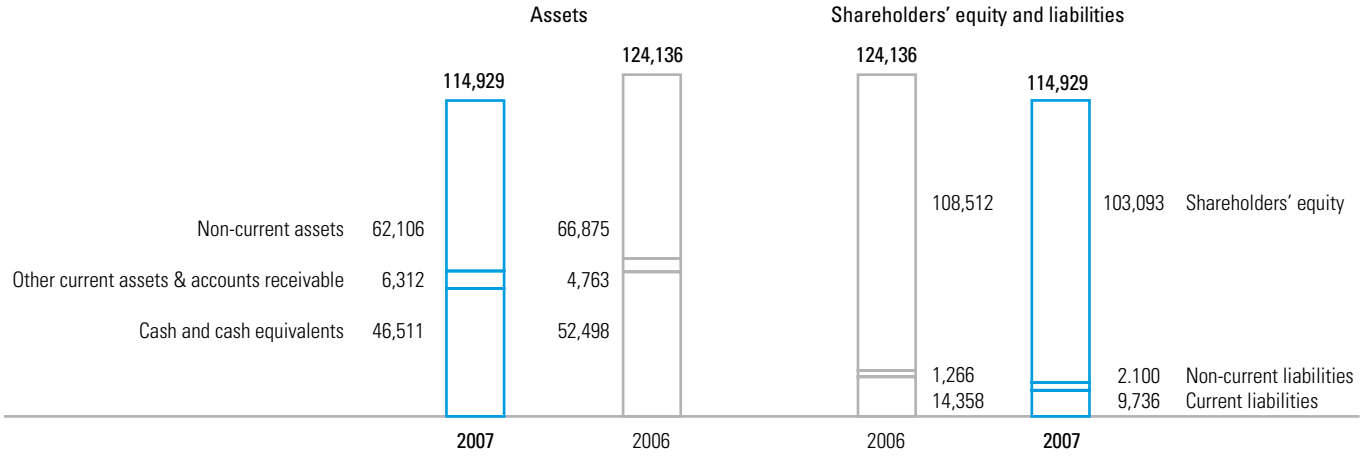
In T€	2007	2006	Change
Assets			
Property, plant & equipment and intangible assets	**48,409**	52,236	-7%
Goodwill	**12,710**	13,041	-3%
Other non-current assets	**987**	1,598	-38%
Cash and cash equivalents	**46,511**	52,498	-11%
Inventories and accounts recievable	**925**	1,170	-21%
Other current assets	**5,387**	3,593	50%
Total Assets	**114,929**	**124,136**	**-7%**
Liabilities			
Shareholders' equity	**103,093**	108,512	-5%
Non-current liabilities	**2,100**	1,266	66%
Current liabilities	**9,736**	14,358	-32%
Total liabilities and equity	**114,929**	**124,136**	**-7%**
Liquidity cover ratio in %	**40**	**42**	
Equity ratio in %	**90**	**87**	

Assets

Compared with the previous year, the Group's balance sheet total decreased by 7% to 114,929 T€ (December 31, 2006: 124,136 T€). This essentially corresponds to the decrease in cash funds and a fall in the value of intangible assets for exchange rate reasons.

Balance sheet structure

In T€



Total fixed assets – excluding goodwill and financial assets – fell to 48,409 T€ (2006: 52,236 T€), of which property, plant, and equipment accounted for 1,802 T€ (2006: 1,391 T€). Intangible assets declined from 50,845 T€ to 46,607 T€. Intangible assets include the Oracea® license, the intangible assets identified within the scope of the MediGene Ltd. acquisition, and patents and licenses for the EndoTAG™ products and technology. In addition to the regular amortization of licenses, the value of the intangible assets of the subsidiary MediGene Ltd. decreased as a result of currency translation effects. These assets carried in British pounds originate from the RhuDex® projects and from mTCR technology and the product candidates based on it (cf. Notes to the Consolidated Financial Statements E), item (40), p. 80).

The goodwill as of December 31, 2007 of 12,710 T€ (December 31, 2006: 13,041 T€) is spread among a total of three cash generating units (CGUs). 3,484 T€ originate from the acquisition of the UK-based subsidiary MediGene Ltd. (2006: 3,815 T€). This part of the goodwill is carried in British pounds and has decreased due to the fall in the value of the British pound against the Euro. Goodwill amounting to 9,226 T€ originates from the acquisition of MediGene, Inc. in 2001 (2006: 9,226 T€). This goodwill results from a CGU, or more precisely the two projects G207 and NV1020. The annual impairment test showed that the fair value calculated for the individual CGUs as per the closing date exceeded their respective book values (cf. Notes to the consolidated financial statements D), item (36), p. 77 ff).

The other non-current assets basically consist of 233,918 shares in the Canadian company QLT, Inc. MediGene did not sell any shares in 2007. As per the December 31, 2007 closing date, the market value of the shares quoted in US dollars decreased to 703 T€ (2006: 1,501 T€).

The trade receivables as per the end of the reporting period amounted to 357 T€ (2006: 769 T€).

As per December 31, 2007, the cash reserves amounted to 46,511 T€ (December 31, 2006: 52,498 T€).

There were inventories worth 568 T€ as per the closing date (2006: 401 T€), most of which were accounted for by Eligard®. Eligard® is not stockpiled, but resold to the sales partner Astellas Pharma shortly after its procurement.

Other current assets totaled 5,387 T€ (2006: 3,593 T€), of which 565 T€ (2006: 614 T€) were reclaimed sales taxes, 1.127 T€ research grants and tax credits (2006: 177 T€) and 2,373 T€ (2006: 1,662 T€) deferred product and licensing revenue which had not yet been billed.

Liabilities

During the reporting period, equity increased as a result of the issuance of 2,062,040 new shares at a price of 6.10 € per share and of 3,084,282 new shares at a price of 5.05 € per share. The subscribed capital as per December 31, 2007 totaled 33,946 T€, divided into 33,946,481 ordinary shares.

Despite the slight decrease in equity to 103,093 T€ (December 31, 2006: 108,512 T€), the equity-to-asset ratio increased slightly to 90% (December 31, 2006: 87%).

Non-current and current liabilities decreased by 24%, totaling 11,836 T€ (2006: 15,624 T€) as per the closing date; this constitutes 10% of the balance sheet total.

Current liabilities decreased as a result of the reversal of a liability amounting to 3,793 T€. This liability had been reported for the acquisition of the Oracea® license in December 2006. MediGene made the relevant payment to the licensor in January 2007. The current liabilities also include trade payables totaling 2,242 T€ (2006: 2,638 T€). These consist of unpaid bills, most of which were issued for services used by MediGene. In addition, there are current liabilities in the form of due payments for product licenses amounting to 2,276 T€ (2006: 1,380 T€) and in the form of unsettled accounts for clinical trials and authorization totaling 1,086 T€ (2006: 1,714 T€).

Deferred income of 136 T€ (2006: 298 T€) results from the recognition of an advance payment that MediGene had received upon the conclusion of a new cooperation agreement for the mTCR technology. The deferred income is being reversed proportionately over the contractual period with effect on net income.

Working capital – the difference between current assets and current liabilities – increased only slightly from 42,903 T€ to 43,087 T€.

Financial position

Change in cash reserves

Cash and cash equivalents showed a total net decrease by 11% or 5,987 T€ in the 2007 reporting year. The closing balance of cash and cash equivalents in the reporting year was 46,511 T€. The liquidity ratio, calculated as the share of cash and cash equivalents in total assets, was 40% (2006: 42%) as per the closing date. There were no open credit lines.

In the reporting period, the change in the amount and composition of total revenue and the increase in research and development expenditure both contributed to the increase in net cash outflow from ordinary activities to 34,037 T€ (2006: 2,553 T€). In the previous year, one-off payments had a substantial positive effect. These payments amounted to 18,825 T€ and were paid to MediGene by the marketing partners Astellas Pharma (Eligard®) and Bradley (Polyphenon® E Ointment) for the attainment of project milestones. In addition, MediGene made a payment of 3,793 T€ for the Oracea® license in the first quarter of 2007. The net cash outflow from ordinary activities was derived indirectly from the net loss for the year.

Change in cash reserves

In T€	2007	2006	Change
Net cash			
used by operating activities	**-34,037**	-2,553	>200%
used by/from investing activities	**-1,296**	1,996	-165%
from financing activities	**29,076**	15,311	90%
Decrease/Incerase in cash and cash equivalents	**-6,257**	**14,754**	**-142%**
Cash and cash equivalents at beginning of period	**52,498**	37,625	40%
Currency translations	**270**	119	127%
Cash and cash equivalents at end of period	**46,511**	**52,498**	**-11%**
in % of balance sheet total	**40**	42	

In contrast to a net cash inflow from investing activities in the previous year (2006: 1,996 T€) resulting from an acquisition, a net cash outflow of 1,296 T€ was reported in 2007. The investments were made primarily to expand the Group's infrastructure in the research and development area.

Net cash inflow from financing activities in the reporting period totaled 29,076 T€ (2006: 15,311 T€). In February and September 2007, MediGene received approximately 28.2 million € gross as a result of capital increases against cash contributions.

With regard to the management of financial risks, it is referred to item (59) of the notes to consolidated financial statements (p. 90 ff).

Average monthly cash burn rate from operating activities

The consolidated cash flow statement for 2007 shows a net cash burn rate from ordinary activities of 34,037 T€ (2006: 2,553 T€) and an average monthly burn rate of 2,836 T€ (2006: 212 T€). The lower cash burn rate from operating activities in the previous year is based upon significant milestone payments which MediGene received for Veregen™ in the year 2006. At the same time, cash consumption in 2007 increased due to the first-time consolidation of the subsidiary MediGene Ltd. for a full year. The cash flow from operating activities is only of limited informative value with regard to future development, as it is significantly influenced by one-off milestone payments from partners and by research and development expenses of which the amount depends on the status of projects.

Investments

In the reporting period, MediGene invested 1,108 T€ (2006: 488 T€) in property, plant, and equipment and software. This mainly served to procure laboratory equipment and information technology. The Group made no investments in capital leases. Of the 1,108 T€, 2 T€ (2006: 5 T€) was allotted to the Specialty Pharma segment and 593 T€ (2006: 206 T€) to the Biopharma segment. The remaining amount could not be clearly attributed to either segment.

All in all, the investments were spread over a multiplicity of devices and facilities. In addition, office space at the Martinsried site was converted to laboratory space in 2007. The costs of these conversion measures totaled 448 T€. There were no other noteworthy single investments (>100 T€) in the reporting period.

Income position

Total revenue

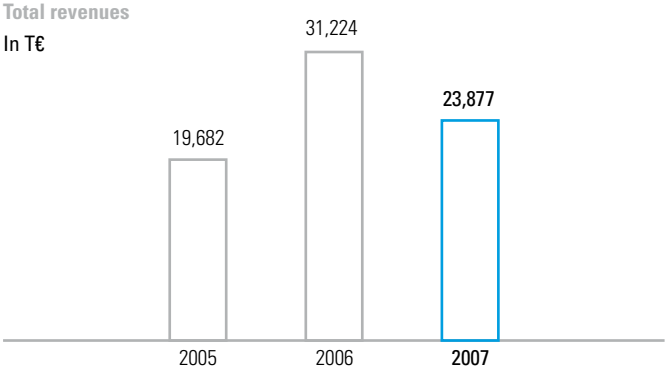
The company generated total revenue of 23,877 T€ (2006: 31,224 T€) in the reporting period. The revenue resulted primarily from the commercialization of Eligard® in Europe and contains not only income from product sales and licensing earnings, but also a milestone payment for the market launch of the six-month Eligard® product. The MediGene Group also received public subsidies and payments from cooperation partners in the field of mTCR technology. All revenue was generated by MediGene AG and its subsidiary MediGene Ltd.

Income statement (abbreviated)

In T€	2007	2006	Change
Total revenues	**23,877**	**31,224**	**-24%**
Cost of sales	**-18,493**	-10,669	73%
Gross profit	**5,384**	**20,555**	**-74%**
General administrative and selling expenses	**-9,026**	-7,639	18%
Research and development expences	**-28,025**	-21,275	32%
Operating result	**-31,667**	**-8,359**	**>200%**
Result before income tax	**-31,345**	**-7,606**	**>200%**
Taxes	**1,469**	715	105%
Net loss	**-29,876**	**-6,891**	**>200%**

Income from product sales and licensing results mainly from the selling of Eligard®. In the 2007 financial year, the expansion of the market share claimed by Eligard®'s one-month and three-month formulations in Europe led to an increase in product and licensing revenue. In addition, the six-month dosage has been being sold on the German market since March 2007. By the end of the year, sales were being generated with Veregen™, now launched on the US market, for the first time. All in all, product sales and royalties, increased by 82% to 21,302 T€ (2006: 11,724 T€).

Total revenues
In T€



In the 2007 financial year, MediGene received a milestone payment of 756 T€ for Eligard®. In the previous year, its marketing partners Bradley and Astellas Pharma made one-off payments for Polyphenon® E Ointment and to a lesser extent for Eligard®; together, these totaled 18,825 T€.

Other operating income totaled 1,819 T€ (2006: 675 T€), of which grants accounted for 623 T€ (2006: 518 T€), R&D payments from MediGene´s partner Sanofi Pasteur 1,057 T€ (2006: 0 €), and other income 139 T€ (2006: 157 T€). MediGene's EndoTAG™ technology will be subsidized with a total of 1.8 million € within the scope of two research promotion programs up to 2009. In addition, its subsidiary MediGene Ltd. receives grants from the Juvenile Diabetes Research Foundation and payments from the cooperation partner Sanofi Pasteur for the mTCR technology.

The distribution of revenue over the individual segments is presented in the Segment Report page 43 f.

Sales costs

The procurement costs of the revenue were incurred mostly in connection with the commercialization of the drug Eligard® and, to a lesser extent, Veregen™. The costs amounted to 18,493 T€ (2006: 10,669 T€). The costs were spread out over the purchasing of the products, a participation of QLT, Inc. in the sales revenue, and a milestone payment that MediGene made to QLT, Inc. in the first quarter of 2007 for the market launch of the six-month Eligard® product.

Gross profit

Gross profit totaled 5,384 T€ in 2007 (2006: 20,555 T€). The level of gross profit is determined by the milestone payments and the ratio of revenue from product sales to license payments. In the previous year, the milestone payments received from the Group's partner Bradley positively influenced the gross margin. There is a dependency regarding the ration of the Euro-US dollar exchange rate for the gross profits realized with the products Eligard® and Veregen™ (cf. Notes to the consolidated financial statements E), item (59), p. 90 ff).

General administrative and selling expenses

Compared with the previous year, general administrative and selling expenses increased from 7,639 T€ (2006) to 9,026 T€ (2007). This amount consisted of 2,578 T€ in selling and distribution costs (2006: 1,504 T€) and 6,448 T€ in general administrative expenses (2006: 6,135 T€). The overall increase is attributable primarily to the consolidation of MediGene Ltd. which was carried for the whole year for the first time in the 2007 financial year (cf. Notes to consolidated financial statements D), item (29) and (30), p. 75).

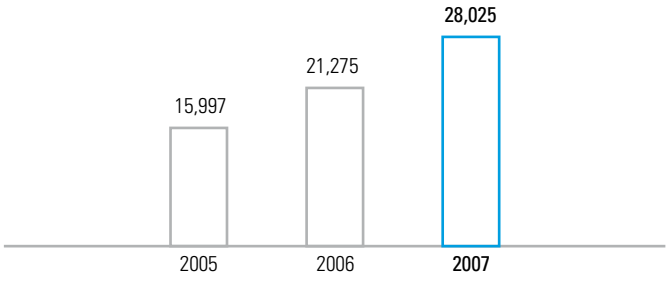
Selling and distribution costs were incurred primarily for the Group's business development activities. This area is involved in, among other things, the commercialization of MediGene's product candidates and technologies within the scope of partnerships with pharmaceutical and biotechnology companies. Costs were also incurred, but to a lesser extent, in the preparations for the marketing of Oracea® in Europe.

R&D expenses

Total expenses for research and development increased by 32% to 28,025 T€ (2006: 21,275 T€). The increase in research and development costs arises from the clinical development progress being made by the drug candidate EndoTAG™-1 in the pancreatic cancer indication and the phase II trial in the triple receptor negative breast cancer indication that was begun in April 2007. However, most of the increase in costs can be attributed to the consolidation of MediGene Ltd., which was consolidated for the first time in the last quarter of 2006. MediGene Ltd. develops the drug candidate RhuDex® and the mTCR technology. A major part of the expenses for research and development are allotted to the use of external services and consultancies in the reporting period. Segment-specific allocation of R&D expenses can be found in the segment reports on page 94 f.

R&D expenses

In T€



Depreciation

There was an overall increase of 27% in depreciation and amortization, from 1,068 T€ (2006) to 1,359 T€ (2007). Regular depreciation and amortization refers to property, plant, and equipment and intangible assets, including patents and product licenses, respectively. The consolidation of MediGene Ltd. led to an increase in depreciation of property, plant, and equipment.

Depreciation

In T€	2007	2006	Change
Fixed assets	676	544	24%
Intangible assets	683	452	51%
Capital lease assets	0	72	–
Total	1,359	1,068	27%

The amortizations were reported in the profit and loss statement under general administrative and selling costs (375 T€) and under research and development expenses (984 T€).

With regard to the reported goodwill totaling 12,710 T€, the impairment test carried out to the date of December 31, 2007 indicated no need for amortization. The decrease of 331 T€ in the goodwill of the subsidiary MediGene Ltd. resulted from an increase in the value of the Euro against the British pound.

EBIT

The operating loss, also referred to as EBIT (earnings before interest and taxes), is an absolute figure indicating a company's earnings. It is applied below as the result for the period before taxes, net interest income, and currency exchange gains/losses. The loss before interest and taxes (EBIT) increased from 8,359 T€ (2006) to 31,667 T€ (2007).

EBIT by segments

In T€	2007	2006	Change
Speciality Pharma	349	16,868	-98%
Biopharma	-23,667	-18,058	31%
Other	-8,349	-7,169	16%
Total	-31,667	-8,359	>200%

Financial result

The financial result improved to 322 T€ (2006: 753 T€) in the reporting period. In 2007, interest income increased because of the higher amount invested. The loss from a derivative financial instrument concerning the product Eligard® increased due to the expected increase in orders from Astellas Pharma for a six months period and the decline in the value of the US dollar against the Euro (cf. Notes to the consolidated financial statements D) item (32), p. 76). Currency exchange gains/losses arose from the translation of revenue from US dollar into Euro. As per the December 31, 2007 closing date, MediGene wrote off the shares held in the Canadian company QLT, Inc. to their market value.

Financial result

In T€	2007	2006	Change
Interest income	2,041	1,298	57%
Interest expense	-47	-11	>200%
Sub-total	1,994	1,287	55%
Losses from embedded derivatives	-812	-101	>200%
Foreign exchange losses	-305	-433	-30%
Expenses of decrease in value of QLT, Inc.-shares	-555	0	–
Total	322	753	-57%

Taxes

In 2007, the MediGene Ltd. subsidiary received an R&D tax credit (cf. Notes to the consolidated financial statements E) item (51) p. 87 f).

Net loss

Compared with the same period in the previous year, the MediGene Group increased its net loss from 6,891 T€ to 29.876 T€.

Loss per share

The net loss per share increased from -0.31 € (weighted average number of shares: 22.410.901) to -0.95 € (weighted average number of shares: 31.541.103) in the 2007 financial year.

The net loss at full dilution as per the reporting date corresponded to the actual loss, as the conversion of ordinary share equivalents would counteract the dilution effect.

Segment reports

The MediGene Group's activities are classified in the segments »Specialty Pharma« and »Biopharma« (see p. 94 f – »Definition of Segments«). The segment »Specialty Pharma« is comprised of the drugs Eligard® and Veregen™ and the product candidate Oracea®. The »Biopharma« segment encompasses MediGene's activities concerning the product candidates EndoTAG™-1, RhuDex®, NV1020, and G207 as well as the preclinical drug candidates EsoDex®, YourDex™, and HiDex™. In addition, the technology platforms EndoTAG™ and mTCR are attributed to this segment.

Those items which cannot be attributed clearly to an individual segment are brought together under »Other.«

Specialty Pharma segment

In the financial year that has just ended, the MediGene Group earned around 92% of its total revenue in the Specialty Pharma segment. This revenue originates almost entirely from sales of the drug Eligard® and a milestone payment for this drug. In the previous year, Bradley made one-off payments amounting to 18,825 T€ within the framework of the marketing partnership concluded for Veregen™. Bradley launched the drug on the US market in December 2007. In Europe, MediGene submitted its application for market authorization of this drug in the spring of 2007. R&D expenses were incurred both for this and for pharmacokinetic and toxicological examinations in the reporting period.

At the end of 2006, MediGene had acquired the European marketing rights for Oracea®. Oracea® is currently going through the European authorization procedure. The acquisition costs for the license were capitalized and allocated to segment assets. With a view to the planned market launch, MediGene carried out its first pre-marketing activities for Oracea® during 2007. This led to an increase in selling expenses in 2007.

Speciality Pharma

In T€	2007	2006	Change
Total revenues	**22,046**	30,554	-28%
Cost of sales	**-18,493**	-10,669	73%
Gross profit	**3,553**	**19,885**	**-82%**
Selling expenses	**-660**	-429	54%
R&D expenses	**-2,544**	-2,588	-2%
Operating result	**349**	**16,868**	**-98%**
Average number of employees	**14**	14	–

Total revenues Speciality Pharma

In T€	2007	2006	Change
Product revenues and royalties	**21,289**	11,724	82%
Milestone and upfront payments	**756**	18,825	-96%
Research grants	**0**	0	–
Other income	**1**	5	-80%
Total	**22,046**	**30,554**	**-28%**

Biopharma segment

The revenue allocated to the Biopharma segment originates primarily from two research grant programs for EndoTAG™ technology. Their total volume amounts to 1.8 million €, of which 0.4 million € was accounted for the BioChance Plus program promoted by the Federal Ministry of Education and Research (BMBF) and 1.4 million € is comprised of grants from the Bavarian Research Foundation. The funds are being allocated over a period from 2006 to 2009. In addition, the subsidiary MediGene Ltd. is receiving funds from the Juvenile Diabetes Research Foundation and payments from Sanofi Pasteur amounting to 1.1 million € in the field of mTCR technology.

Biopharma

In T€	2007	2006	Change
Total revenues	**1,814**	629	188%
Cost of sales	**0**	0	–
Gross profit	**1,814**	**629**	**188%**
Selling expenses	**0**	0	–
R&D expenses	**-25,481**	-18,687	36%
Operating result	**-23,667**	**-18,058**	**31%**
Avarage number of employees	**109**	80	36%

Total revenues Biopharma

In T€	2007	2006	Change
Product revenues and royalties	**10**	0	–
Income from cooperations	**1,057**	0	–
Research grants	**623**	518	20%
Other income	**124**	111	12%
Total	**1,814**	**629**	**188%**

Employees

Number of Group employees

Due to the full-year consolidation of the Group's subsidiary MediGene Ltd., the average number of MediGene's employees increased to a total of 159 in 2007 (2006: 121 employees). In line with this increase in the average number of employees, personnel expenses in the reporting period increased to 14,783 T€ (2006: 11,801 T€).

Employees by function (as of Dec. 31)

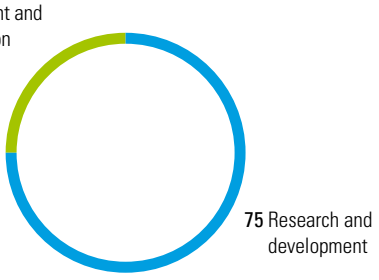
	2007	2006	Change
Business development and general administration	**43**	41	5%
Research and development	**129**	130	-1%
Total	**172**	**171**	**1%**

Employees by region (as of Dec. 31)

	2007	2006	Change
MediGene AG, Martinsried	**126**	123	2%
MediGene, Inc., San Diego	**5**	6	-17%
MediGene Ltd., Abingdon	**41**	42	-2%
Total	**172**	**171**	**1%**

Employees by function[1)]

In %



[1)] as of Dec. 31, 2007

Compensation paid to the executive board and supervisory board

Executive Board compensation

The total compensation, including pension benefits, paid to the members of the Executive Board in the last financial year was 1,131 T€ (2006: 1,173 T€). This amount included 64 T€ (2006: 57 T€) for pensions. The Executive Board compensation is comprised of fixed and variable components, as well as performance incentives to increase the company's value in the long run. The criteria for the variable compensation components are laid down in advance each year. Long-term compensation components are stock options. The intention is to create performance incentives aimed at sustained corporate success. The benchmarks for assessing such success may not be subsequently changed. No advance payments were made to Executive Board members.

Supervisory Board compensation

Supervisory Board compensation totaled 220 T€ in 2007 (2006: 247 T€). The total compensation paid to the members of the Supervisory Board is comprised of a fixed cash amount and fees for meetings attended. The duties of the Chairman and Deputy Chairman are taken into consideration according to their scope. Information on subscription rights of members of the managerial bodies is provided in the Notes to the consolidated financial statements under J), item (66), page 97 f. No advance payments were made to Supervisory Board members.

Executive Board compensation 2007

Executive Board member	Fixed compensation	Variable, performance related compensation[1)]	Other compensation as long-term incentive	
			Number of stock options	Fair Value of options
	in T€	in T€	no.	in T€
Dr Peter Heinrich, Chief Executive Officer	261	165	40,000	98
Alexander Dexne, Chief Financial Officer (until May 31, 2007)	85	25	25,000	61
Dr Ulrich Delvos, Chief Operating Officer	251	109	25,000	61
Dr Thomas Klaue, Chief Financial Officer (from June 15, 2007)	111	60	0	0
Total	**708**	**359**	**90,000**	**220**

In addition, 64 T€ was paid towards the pensions of the Executive Board members.
[1)] see Notes to the consolidated financial statemens: accruals

Supervisory Board compensation 2007

Supervisory Board member	Fixed compensation	Variable, performance related compensation	Compensation as long-term incentive (no. Of convertible bonds or stock options)	Compensation for individually performed services
	in T€	in T€		in T€
Prof Dr Ernst-Ludwig Winnacker Chairman	48	20	0	0
Prof Dr Norbert Riedel Vice Chairman	36	15	0	0
Dr Pol Bamelis Member	24	10	0	0
Sebastian Freitag Member	24	10	0	0
James Noble Member (from May 25, 2007)	16	5	0	0
Dr Manfred Scholz Member (until September 20, 2007)	12	0	0	0
Total	**160**	**60**	**0**	**0**

Performance indicators

Financial performance indicators

The management of MediGene uses revenue, the operating result (EBIT), the gross sales margin, the liquidity ratio, and the equity ratio as performance indicators for the commercial success of the Group's activities.

Performance indicators

		2007	2006
Revenue in %	Gross profit x 100 / Revenues	23	66
EBIT in T€		-31,667	-8,359

Asset and finance indicators

		2007	2006
Liquid coverage ratio in %	(Cash + Securities) x 100 / Balance sheet total	40	42
Equity ratio in %	Equity x 100 / Balance sheet total	90	87

Nonfinancial performance indicators

MediGene's commercial success will fundamentally depend on the extent to which patents for products and technologies on the respective regional target markets can be obtained and sustained. The intellectual property of the MediGene Group therefore constitutes the company's pivotal nonfinancial performance indicator. In addition, MediGene's management devotes its full attention to environmental and health protection issues.

Intellectual property

The MediGene Group, as owner or licensee, currently holds rights to a large number of patents or patent applications:

Patents granted and scheduled to be granted

	Speciality Pharma	Biopharma
Germany/United Kingdom/Europe	6	28
USA	2	52

Pending patent applications

	Speciality Pharma	Biopharma
Germany/Europe	7	56
USA	3	64
International	11	93

Consistent patent strategy provides the basis for commercial success

The company endeavors to patent proprietary products, processes, and technologies. In line with the strategy of obtaining patents for technologies and products in development, MediGene has submitted numerous patent applications for various results of its work on proprietary technologies and products, or has exclusively licensed patents for the relevant segments.

Environmental and health protection

Safety and environmental protection at a high level

MediGene is committed to safety and environmental protection. The company not only meets the stringent statutory requirements, but also strives to keep its laboratory facilities and equipment state-of-the-art. In order to monitor compliance with the regulatory requirements, MediGene has appointed in-house radiation safety, biological safety, and waste management officers, a safety engineer, and a project manager for genetic research, all of whom are experienced employees trained specifically for their specialist tasks. MediGene is receiving additional support from an external safety engineer trained in accordance with the guidelines of the chemical industry's employers' liability insurance association.

MediGene provides for thorough servicing and continuous maintenance and enhancement of its laboratory facilities and equipment. MediGene enlists the help of external service providers to ensure that all accumulated waste materials are properly separated and disposed of professionally or recycled in accordance with the prevailing requirements. In order to guarantee safety at work for all our laboratory employees, the safety engineer analyzes hazards and conducts training sessions. In addition, preventive medical check-ups are carried out at regular intervals. MediGene complies with all the key requirements in the fields of environmental and health protection and safety and possesses the pertinent authorizations and permits. The company has passed all the random inspections and tests carried out by the various authorities to date without any relevant objections.

Procurement

Procurement is focused on the authorized drugs Eligard®, Veregen™, and Oracea®, which is still undergoing the authorization process, as well as drug candidates for clinical and preclinical test purposes, services, chemicals, and laboratory supplies for research and development. MediGene is intensely involved in the development and optimization of the production processes for future drugs so that the procurement of the required ingredients at a later date can be organized efficiently.

Procurement of drugs and drug candidates

MediGene purchases the drug Eligard® for the European market exclusively from its licenser and manufacturer QLT, Inc. in the United States.

In December 2006, MediGene concluded a contract with Mitsui Norin Co., Ltd. (hereinafter: »Mitsui Norin«), Japan, for the production and supply of the active pharmaceutical ingredient for Veregen™. The formulation of the ointment is carried out by a contract manufacturer in Germany by order of Bradley. The raw material, which consists of green tea leaves, is obtained from Chinese tea farms. Mitsui Norin is responsible for monitoring the Chinese raw materials suppliers.

MediGene will obtain the drug candidate Oracea®, currently still undergoing the authorization process, directly from its licenser CollaGenex. The Oracea® capsules are delivered as bulk merchandise by CollaGenex and packed for sale by contract manufacturers in Germany.

In November 2007, MediGene concluded a preliminary contract with the South Korean pharmaceutical manufacturer Celltrion Inc. for the monoclonal anti-L1 antibody. When the contract comes into force, Celltrion will bear the costs and handle the implementation of process development and the production of the antibody up to and including clinical phase II.

Procurement management for R&D supplies

MediGene is not restricted to any single raw materials suppliers for its R&D work, instead soliciting quotations from various suppliers as a matter of principle and placing purchase orders with the most favorably priced supplier, taking all quality considerations into account. Procurement is organized in such a way that MediGene is able to ensure a supply that is as stable as required and resilient in the face of possible bottlenecks or quality problems, while at the same time optimizing its purchase prices. Given a price trend within the usual range, procurement costs are of secondary importance within MediGene's cost structure.

Complex demands on service providers

MediGene avails itself of extensive services primarily for large-scale production and the formulation of therapeutic substances, and also when it is conducting pharmacological, toxicological, and clinical trials. The outsourcing of these activities ensures that we will be able to respond to changes in our development portfolio with the required flexibility. The demands on services of this kind are highly complex and call for extensive expertise and experience on the part of the purchaser. Criteria for selecting partners, apart from quality and efficiency, are adherence to delivery dates, reliability, and flexibility.

Risk report

Risks of drug development and authorization

Industry and market risks

MediGene is subject to the typical industry and market risks which are inherent in the development of pharmaceutical products using innovative technologies. Experience shows that the development of a drug takes 10 to 15 years. There exists a fundamental risk that some or all of MediGene's products may not be developed or marketed successfully. There is also the possibility that some product candidates may fail to obtain the regulatory authorization that is required for marketing or further development, that one or all of the product candidates will turn out to be hazardous or ineffective, that the products cannot be manufactured in large quantities or marketed profitably, or that they are not sufficiently competitive. Furthermore, third-party proprietary rights can be an obstacle to marketing a product, or other companies may launch drugs that are superior in terms of quality or market price.

Risks of unsuccessful drug development

Before their commercialization, MediGene's product candidates have to pass through the preclinical development stage, followed by the individual phases of the clinical trials with humans. These trials investigate adverse effects and the efficacy of the substance in question before the application for market authorization can be submitted to the respective regulatory authority. Once it has evaluated the application and data submitted, the authority decides whether or not to grant market authorization. There is a possibility that approval will be denied as a result of the data submitted, or granted only on certain conditions, or that additional data will be required for a final decision on the product's authorization. Delays in the execution of a clinical trial or in patient recruitment may increase costs and postpone the market launch. The results of preclinical and clinical trials are not predictable and the results obtained in previous trials do not permit any forecasts regarding future trials.

Many biotech companies, including MediGene, have experienced setbacks in clinical trials, even after achieving positive results in earlier phases. MediGene maintains close relations with the regulatory authorities and performs an annual risk assessment for each project. Risk diversification is achieved by developing drugs based on a variety of technologies or by acquiring licenses for products that are at an advanced and lower-risk stage of development.

The company commissions specialized service providers to conduct the required clinical trials. Some of these contracts include a right of cancellation for the respective service provider. The cancellation of a contract by a service provider might cause a serious delay in the execution of clinical trials and thus prolong product development significantly.

Authorization risks

Even if MediGene is granted market authorization for a drug, this authorization may be contingent on the fulfillment of certain obligations. This can be detrimental to the marketability of the product. Obligations may be comprised of additional clinical trials or restrictions on the application of a product. For example, authorization may be granted only for a sub-group of patients. In addition, the holder of the authorization must fulfill a multitude of regulatory duties, such as monitoring the approved drug's safety. Authorization – even without additional requirements – obliges MediGene to set up and administer an organization within the company to fulfill these legal requirements. These requirements can be detrimental to the assets, financial, and income position of the company.

Authorization of a drug for one particular geographical market does not automatically mean that it will be authorized for other markets. The individual regional or national markets are subject to different legal requirements that can vary significantly. This also applies for the authorization of a drug for treating different diseases. Adherence to the authorization requirements can delay and/or increase the cost of product commercialization, which could be detrimental to the assets, financial, and income position of the company.

Employees

MediGene relies on its highly qualified research and development staff. There is intense competition among companies to recruit employees with industry-specific expertise. MediGene's commercial success will continue to depend on appropriately skilled employees being recruited for these areas and on their loyalty to the company being secured. The possibility of a lack of qualified staff becoming an obstacle to growth cannot be ruled out, a fact that could adversely affect MediGene's assets, financial, and income position.

Risks of drug commercialization

Procurement risks

MediGene purchases the drug Eligard® for the European market exclusively from its licenser and manufacturer QLT, Inc. in the United States. In principle, there is a risk of the manufacturer failing to supply the product.

In December 2006, MediGene concluded a contract with Mitsui Norin, for the production and supply of the active pharmaceutical ingredient for Veregen™. Mitsui Norin and MediGene set up the commercial production facilities for the FDA-approved active ingredient during the last financial year. The formulation of the ointment will be carried out by a German subcontractor. The raw material, which consists of green tea leaves, is obtained from Chinese tea farmers and is subject to the usual risks inherent in agricultural produce, such as crop failures caused by environmental factors or the chemical or biological contamination of harvested crops.

Within the scope of the licensing agreement with MediGene, CollaGenex, the licenser for Oracea®, has committed itself to supplying adequate quantities of the product for the European market.

Supply bottlenecks can adversely affect MediGene's business operations and therefore its assets, financial, and income position.

Reimbursement risks

The commercially successful distribution of a drug also depends on whether and to what extent the authorized drug is reimbursed by the public or private health insurance carriers in the individual countries. In the European Union and in many other countries, there are price controls and/or other limitations on the reimbursement of drug costs. MediGene may even be forced to reduce the price of a drug in order to be admitted to a reimbursement system at all.

Risks of low drug sales

The development and marketing of drugs are subject to fierce competition. This applies particularly to the fields of autoimmune diseases, dermatology, and oncology on which MediGene concentrates its activities. Due to its commercial potential, this market is the focal point of the activities of numerous major pharmaceutical and specialized biotech companies. MediGene's drug candidates target highly serious and/or still insufficiently treatable diseases. In any of these indications, a successful drug would have tremendous market potential. If a competitor is first in launching a product successfully, the drug developed by MediGene could be less competitive or even in an inferior position, depending on the product's profile and sales performance. MediGene's broad-based portfolio strategy is designed to minimize sales risks, although it cannot rule them out entirely.

The ability of MediGene or its marketing partners to sell proprietary drugs on the market can also be adversely affected by competition from generic drugs. Generic drugs are drugs

which are launched on the market under the international non-proprietary name or a new trade name after the patent for the original preparation has expired. The marketing of generic drugs based on comparable preparations can also adversely affect the marketing of MediGene's drugs.

Risks of dependence on future cooperation agreements

The company has not yet established its own sales and marketing organization. It therefore uses the services of cooperation partners for the marketing of its products; these partners maintain their own sales and marketing organizations. If the company fails to conclude cooperation agreements of this kind on favorable terms, this could delay or hinder the company's ability to market its products or make such activities unreasonably expensive. This could adversely affect the company's assets, financial, and income position.

Risks of drug marketing by partner companies

An essential component of MediGene's strategy is and will continue to be the conclusion of partnerships with other companies that market and distribute MediGene's products. It cannot be guaranteed that the partner companies will be able to market and distribute the drugs to the extent anticipated by MediGene. The company has only a limited influence on the partner companies' marketing activities. This limited influence could adversely affect MediGene's business operations and therefore its assets, financial, and income position.

Risks of own drug sales activity

MediGene is currently setting up an organization for marketing Polyphenon® E Ointment and Oracea® in Germany. For this purpose, MediGene has announced the extension of its Executive Board through the addition of the Sales, Marketing and Business Development division and has made some initial appointments of staff with extensive marketing experience. There is no guarantee that MediGene will succeed in attracting a sufficient number of additional suitably qualified employees with drug marketing experience to the company and furthermore, that MediGene's own marketing activities in this environment will be successful. If MediGene's own marketing activities are to enjoy commercial success, it may be necessary for the company to supplement its own product portfolio with additional licenses for drugs close to market authorization or already authorized. It is not certain whether MediGene can acquire further marketing licenses for new products on acceptable commercial terms. Difficulties in drug marketing could be highly detrimental to MediGene's business operations and therefore its assets, financial, and income position.

Risks arising from development and product liability

MediGene is exposed to the risk of substantial indemnification claims if a patient suffers harmful adverse effects while participating in a clinical trial or taking a prescribed drug developed by MediGene. In particular, such claims for indemnification could exceed MediGene's insurance coverage and consequently have a negative impact on the company's financial and income position and its cash flow. Although the procedures used in clinical trials are devised in such a way that potential adverse effects are identified and assessed, the possibility can never be ruled out that a drug may cause unexpected adverse effects even after it has been authorized. Such adverse effects could impair the drug's safety profile and be so severe that the drug has to be withdrawn from the market.

Financial risks for the MediGene Group

To date, MediGene has not generated any profit and its future profitability is uncertain. Since it was founded in 1994, MediGene AG has reported operating losses in every financial year as expenditure for research and development has exceeded the prevailing sales revenue and/or gross result. MediGene still expects to generate losses in the coming financial years.

Planning risks

At least once a year, MediGene's management prepares a detailed business plan incorporating the results of portfolio steering and evaluation. This plan contains numerous assumptions concerning, among other things, progress being made by projects, the outcomes of clinical trials, the conclusion of new licensing agreements, the development of product revenue, and the general conditions within the relevant pharmaceutical market segments. These assumptions can deviate substantially from actual future developments. The prerequisites for achievement of the financial targets are an increase in product revenue, the market authorization of further drugs, and the successful outcome of research and development activities. There is no guarantee that MediGene can achieve the product revenue, further market authorizations, and newly concluded partnerships that will be necessary for the attainment of its financial targets. MediGene's plans are based on assumptions regarding future research and development results and on estimates of the market and competitive environment. These assumptions could prove to be inaccurate.

Financing risks

MediGene's present equity and operating cash flow may possibly be insufficient to cover the expected investment expenditures and the working capital that will be required in the foreseeable future. It is possible that MediGene will have to raise additional funds from external sources. Success in obtaining additional capital depends on financial, economic, and other factors which, in the majority of cases, cannot be influenced by the company's management. These factors also include the results achieved within the scope of MediGene's research and development activities. MediGene may not always have sufficient funds available to it on acceptable terms in times of need. Should this be the case, MediGene might be compelled to reduce its spending on research and development, production, or marketing. This could have significant adverse effects on the company's assets, financial, and income position and on its future prospects. So far, MediGene has always been able to raise sufficient capital to ensure the continuous financing of its operations. In order to maintain its good standing and prospects in the future, MediGene is pursuing intensive investor relations and public relations activities.

Foreign exchange risks

The subsidiary MediGene, Inc., based in San Diego, USA, is financed by funds from MediGene AG. If the Euro loses value against the US dollar, the cost of operations in the US increases. If the Euro rises against the US dollar, on the other hand, this requires a valuation allowance for MediGene's assets denominated in US dollars. Since the US site is small, the impact of foreign exchange fluctuations is relatively minor. The same applies to the British subsidiary MediGene Ltd., of which operations are transacted in British pounds.

MediGene purchases the materials for marketing Eligard® in the US, and these are invoiced in US dollars. MediGene sells the drug on the European market in return for US dollars. As a result, MediGene's realized profit margin is subject to fluctuations of the foreign exchange rate.

The development and marketing agreement concluded with Bradley is handled in US dollars. The purchasing of the active pharmaceutical ingredients of Veregen™ is also conducted in US dollars. This means that the contractually agreed milestone payments and the margin resulting from product sales are subject to exchange rate fluctuations.

The future procurement of the drugs Polyphenon® E Ointment and Oracea® for the European market will be transacted in US dollars. Future product sales will be generated in Euro or GBP. Accordingly, MediGene's realized profit margin will be subject to fluctuations in the Euro/US dollar or British pound /US dollar parity.

Environmental, health, and safety risks

In the United States, the United Kingdom, and Germany, the Group must observe a multitude of different laws and standards relating to health and environmental protection and occupational safety. These laws include provisions on the handling of exhaust emissions and the disposal of solid and liquid waste. Adherence to these provisions and requirements will necessitate investments and operating expenses within the scope of ordinary activities. Compliance with the regulations may result in additional future expenses. Adjustments to future changes in the law could require major investments. The resultant costs could be highly detrimental to the company's assets, financial, and income position.

Patent risks and legal risks

Patent risks

MediGene's success also depends on its ability to achieve comprehensive patents for its technologies and products, protect its trade secrets, fend off infringements effectively, and assert its own rights without breaching the rights of others. To protect its legally protected technologies and products, MediGene also applies confidentiality agreements and contractual restrictions of use when cooperating with partners, employees, consultants, and other contractual partners.

It cannot be guaranteed that patents will not be challenged, declared invalid, or circumvented, or that they will be commercially beneficial to the company. The company intends to take appropriate action against any infringements and continue expanding its technology and product portfolio. In the areas concerned, however, third parties could assert legally protected interests based on industrial property rights or cooperation, research, and license agreements. Further legal disputes in the future cannot be ruled out.

Legal disputes

Prior to the market launch of Eligard® in 2004, MediGene had already filed a suit before the German Federal Patents Court for the invalidity of the German part of a European patent belonging to its competitors Takeda Chemical Industries, Ltd. and Wako Pure Chemical Industries, Ltd. The patent concerns specifically defined high-molecular, biodegradable polymers. In the summer of 2004, after the market launch of Eligard®, Takeda Chemical Industries, Ltd., Takeda Pharma GmbH, and Wako Pure Chemical Industries, Ltd. (Takeda and Wako) sued the partners MediGene and Astellas Pharma GmbH before Duesseldorf Regional Court for alleged patent infringement. In their lawsuit, they argue that the commercialization of MediGene's and Astellas' drug Eligard® infringes the aforementioned patent held by the plaintiffs.

On April 20, 2005, the Third Nullity Board of the German Federal Patents Court decided in an oral hearing that all of the claims arising from the aforementioned patent which Takeda and Wako were asserting against MediGene and Astellas Pharma before Duesseldorf Regional Court were invalid within the Federal Republic of Germany. Takeda and Wako have appealed against this judgment before the Federal Supreme Court (BGH), of which the decision is expected in 2008. At the same time, Duesseldorf Regional Court suspended the suit for patent infringement until the final ruling in the suit for invalidity comes into force, although the patent in question expired at the beginning of May 2006.

In the further course of events, MediGene lodged an appeal against the granting of the European patents EP 1 310 517 B1 to Wako Pure Chemical Industries, Ltd. and Takeda Pharmaceutical Company Ltd., and EP 1 330 293 B1 to Takeda Pharmaceutical Company Ltd. in April and May, 2006, respectively. In addition, there was a parallel court case concerning patent infringement in the United States, in which MediGene's supplier and licenser QLT USA, Inc. (formerly Atrix Laboratories, Inc.) and Sanofi-Synthelabo, Inc., the US marketing partner of QLT USA, Inc., were sued on the grounds of patent infringement by Takeda Abbott Pharmaceutical Product, Inc., Takeda Chemical Industries, Ltd., and Wako Pure Chemical Industries, Ltd. According to a press release issued by QLT USA, Inc. on February 9, 2007, this legal dispute was settled out of court. Since the opponent has not made a claim for compensation and the probability of such a claim is estimated by the management at less than 50%, no provisions have been recorded. In addition, the license agreement concluded with QLT USA, Inc. stipulates the take over of potential claims for compensation by the licensor itself.

In May 2003, in order to eliminate any legal uncertainties concerning Polyphenon® E, the company opposed European patent no. EP 0 814 823 B1 held by Indena S.p.A., Milan, Italy, which covers specific polyphenol fractions in green tea. In June 2004, Indena S.p.A. thereupon restricted the patent to a scope that is of no significance for MediGene. In December 2005, the Opposition Division of the European Patent Office repealed the patent in its entirety. Indena S.p.A. lodged an appeal against this decision in February 2006. The European Patent Office's Board of Appeal is expected to make its decision in March 2008. The management of the company evaluates the possibility of claims as being very unlikely. For this reason, no provisions have been recorded.

With the exception of the legal disputes explained above, there were no pending legal disputes during the last twelve months which could materially influence the commercial position of the company or its subsidiaries and there is presently no threat of such disputes.

Risk management system

Principles, administration, and controlling

MediGene's corporate strategy is geared toward maximizing shareholder value. This necessitates constant monitoring and improvement of the decision-making processes. Corporate success implies taking risks and acting with the appropriate degree of responsibility. With this in mind, MediGene's management implements a comprehensive risk management system which is adapted flexibly to new situations and monitored continuously. Organizational safeguarding measures have been established by separating functions. Any activities or business transactions that involve potential risks are never carried out by one employee alone – in all such cases, a committee is responsible for the decision-making process and for the decision itself. Work instructions and workflows are standardized to ensure the consistent execution of each individual operation. EDP risks are minimized by means of access restrictions and regulations for system development and maintenance. Forms, worksheets, and laboratory journals are used for the full recording and documentation of all the data obtained. MediGene's controlling function is responsible for the goal-oriented coordination of planning, information supply, steering, and monitoring. To reveal any deviations, projects undergo a monthly target-performance comparison, the results of which are discussed regularly with the project managers and the Executive Board.

Portfolio strategy to reduce overall risk

MediGene's overall risk with regard to its existence and success is determined primarily by the individual risks arising in clinical development, product marketing, and corporate financing. The commercial success and future existence of the company therefore depend primarily on successful drug development and commercialization, and on the prevailing conditions on the capital market. MediGene counters the intrinsically high risk of individual projects failing by maintaining a broad product portfolio based on different technological and scientific approaches which are independent of each other. Due to the products which are already successfully authorized for the market and concequentially generated revenues from products and licenses, these risks are classified as not having the potential to endanger the company's existence.

Portfolio steering and evaluation

MediGene's project portfolio is steered actively and evaluated at regular intervals. The steering function includes the drawing up of development plans for each individual project. These are then adopted by a development committee and their observance is monitored by the Executive Board. The regular evaluation of the individual projects is based on the analysis and assessment of their opportunities and risks. The analysis and assessment

cover not only the technical risk, but also intellectual property and the scientific assumptions of potential competitors. Other areas covered by the evaluation are clinical development considerations, market authorization terms, process development, and portfolio strategy. Another significant element is the analysis of the current and future development of the respective segments of the drug market.

The results are summarized in a scenario analysis which includes a profitability assessment based on discounted cash flows. This feasibility study then provides the basis for any decision relating to MediGene's overall portfolio and future strategic orientation. MediGene's own research and development activities are assisted by internationally renowned scientific advisors whose advice is based on the latest findings from research and clinical applications.

Particular attention is devoted to patents. MediGene strives for comprehensive patents for technology platforms and product candidates in order to protect the company against potential competitors. MediGene does not depend on any one technology. It possesses highly diversified technology and product portfolios, both of which are protected by far-reaching international patents, pending or granted. In addition, cooperations with external scientific institutes, universities, and other companies provide access to state-of-the-art developments and technologies.

Business planning and forecasting
At least once a year, MediGene's management prepares a detailed business plan incorporating the results of portfolio steering and evaluation. This plan contains numerous assumptions concerning, among other things, progress being made by projects, the outcomes of clinical trials, the conclusion of new licensing agreements, the development of product revenue, and the general conditions within the relevant pharmaceutical market segments. These assumptions can deviate substantially from actual future developments. To facilitate the steering of the company despite the resulting uncertainties, the most significant assumptions are used to develop different scenarios geared towards safeguarding the financing of the company over a period of at least 24 months.

Adherence to the business plan is monitored continuously. The company is steered with the help of monthly target-performance comparisons. In addition, the business plan is adjusted as soon as there are any changes in the relevant assumptions.

Quality assurance
MediGene's quality assurance system complies with the requirements of the German Pharmaceuticals Act (AMG) and the »Good Manufacturing Practice (GMP)« manual. GMP contains quality assurance guidelines for production processes and environments in the manufacture of drugs and active ingredients. The observance of GMP guidelines ensures compliance with defined standards in the development and manufacture of pharmaceutical products, so that proof of the work methods used can be provided at any time. In the quality assurance field, MediGene has a host of standardized workflows at its disposal.

Disclosure requirements in accordance with § 315 (4) of the German Commercial Code (HGB)

The statements according to § 315 (4) HGB are outlined below with the exception of the parent company's significant agreements concerning the change of control as a consequence of a takeover bid. The company believes that the information in question could result in tangible or intangible disadvantages, e.g. competitive disadvantages. The information is therefore not included in the following statements.

No. 1: Composition of subscribed capital, voting rights, and privileges
As per the December 31, 2007 closing date, the capital stock consisted of 33,946,481 registered, no par value bearer shares. Each share represents one vote at the annual stockholders' meeting. There are no restrictions on voting rights. The company did not issue any shares granting privileges of controlling power.

No. 2: Restrictions on voting rights or transfer of shares
As per the December 31, 2007 closing date, 1,223,668 shares issued within the scope of the Avidex acquisition in 2006 were still being held in trust up to September 27, 2008 as security for any warranty claims which may arise.

No. 3: Shareholders with an interest of at least 10%
As per the December 31, 2007 closing date, the company did not know of any shareholders whose interest exceeded 10% of the capital stock. For disclosure requirements under the German Securities Trading Act (WpHG), see note 68 to the consolidated financial statements, p. 100 f.

No. 4: Holders of shares with privileges
There are no shares that grant privileges of controlling power.

No. 5: Nature of voting rights control if employees have a share in the capital and do not directly exercise their right of control
This constellation does not exist within the company.

No. 6: Statutory provisions and stipulations in the Articles of Incorporation on the appointment and dismissal of members of the Executive Board and amendments to the Articles of Incorporation
The Executive Board of the company, in accordance with Section 7 (1) of the Articles of Incorporation, consists of one or more persons and is appointed, in accordance with Section 84 (1) of the German Stock Corporation Act (AktG), by the Supervisory

Board for a period of no more than five years. Reappointments or term extensions are permissible, in each case for a maximum period of five years. The Supervisory Board appoints one of the members of the Executive Board as the Chairman of the Executive Board. In accordance with Section 84 (3) of the German Stock Corporation Act, the Supervisory Board is also responsible for the Executive Board's dismissal.

Pursuant to Sections 179 and 133 of the German Stock Corporation Act, the Articles of Incorporation can be changed only by a resolution of the annual stockholders' meeting, for which a simple majority is required and at least three-quarters of the capital represented at the vote on the resolution must give consent, unless the Articles of Incorporation provide for a different capital majority. Article 18 of the company's Articles of Incorporation stipulates that resolutions of the annual stockholders' meeting are adopted with a simple majority of the votes cast, unless a larger majority is stipulated by mandatory provisions of applicable law. This would be the case with, for example, the setting up of authorized capital (Section 202 [2] clauses 2 and 3 AktG) or contingent capital (Section 193 [1] clauses 1 and 2 AktG), and the issuance of non-voting preferred shares (Section 182 [1] clause 2 AktG), each of which requires a three-quarters majority of the capital represented at the vote on the resolution. The Supervisory Board has the right to make amendments to the Articles of Incorporation if these affect only the wording.

No. 7: Authorizations of the Executive Board, especially with regard to the issuance or repurchase of shares

a) Authorized Capital

The Executive Board, in accordance with the company's Articles of Incorporation, is authorized, with the consent of the Supervisory Board, to issue a total of up to 12,337,137 new bearer ordinary shares against contributions in cash or kind up to May 24, 2012 (around 36% of the share capital). The Executive Board is authorized, with the consent of the Supervisory Board, to determine the further terms of the shares' rights and the terms of share issuance.

The Executive Board is authorized, with the consent of the Supervisory Board, to preclude subscription rights in the context of capital increases against contributions in kind. In the case of capital increases against contributions in cash, shareholders are generally to be granted subscription rights to the new shares. The new shares should be acquired by at least one financial institution, along with the obligation to offer them for subscription to the shareholders. The Executive Board is, however, authorized, with the consent of the Supervisory Board, to preclude shareholders' subscription rights in the event of capital increases against contributions in cash.

b) Contingent Capital

As per December 31, 2007, there are a number of contingent capital items totaling 13,400,590 €. These contingent capital items facilitate the issuance of new shares to the holders of option and conversion rights. The Executive Board can still issue a total of 11,600,000 € in option and conversion rights. The amount of 1,600,000 € may be issued solely to members of the Executive Board of the company, members of the management bodies at affiliated companies in Germany and abroad, and employees of the company.

c) Share repurchase

No authority has been granted to acquire treasury shares in accordance with Section 71 (1) no. 6–8 of the German Stock Corporation Act (AktG).

No. 8: Significant agreements of the company which are conditional upon a change of control as a result of a takeover bid

This information is omitted.

No. 9: Compensation agreements in the event of a takeover bid with members of the Executive Board and the Supervisory Board

The contract governing the appointment to the Executive Board of the Executive Board member Dr. Frank Mathias (beginning of term: April 1, 2008) provides for special termination rights in the event of a change of control, both for the company and the Executive Board member Dr. Frank Mathias. The special termination rights are limited to one year starting from the time of the change in control.

No corresponding agreements have yet been concluded with the other members of the Executive Board. The company is currently conducting negotiations with them on the matter, however.

If the term of office of the Executive Board member Dr. Frank Mathias comes to an end as a result of the company's exercise of its special termination right referred to above, Dr. Frank Mathias shall be entitled to receive a compensation payment in the amount of the gross remuneration up to the regular end of the Executive Board contract, a pro rata temporis gross bonus (without stock options) on the basis of the average annual bonus up to the regular end of the Executive Board contract term, and a lump-sum payment amounting to 2.5 times the annual remuneration due (without stock options). The lump-sum payment may not be higher than three times the agreed annual remuneration and average annual bonus at the time of the termination of the employment.

Major events since the end of the period under review

MediGene focuses its research activities and examines external financing for the mTCR program

In early January 2008, MediGene announced that it would be

focusing its projects in the early research stage and in preclinical development. MediGene's management is assuming that this focusing will noticeably ease the burden on research expenditure by 2009 at the latest. With this in mind, the company is examining alternative financing options for the mTCR research program of its UK-based subsidiary MediGene Ltd. One possibility of external financing that was discussed with potential investors provides for the spin off of the program into an autonomous research company. MediGene is assuming that in the event of this happening, it would be the largest individual shareholder in the new company through MediGene Ltd. and would additionally secure the option of clinically developing selected projects itself at a later date.

In the »BioChancePlus« competition, MediGene is receiving approximately 600 T€ in research funds from the German Federal Ministry of Education and Research (BMBF)

In February 2008, MediGene announced that the BMBF was providing the company with research funds amounting to just under 600,000 € over a period of three years as part of the SME subsidization scheme »KMU-innovativ: Biotechnologie – BioChance.« MediGene's research activities in the immunology field satisfy the required criteria of »excellence,« »degree of innovation,« and »significance of the contribution for dealing with issues currently relevant for society« and are therefore being subsidized.

No further changes relating to the business situation occurred by February 27, 2008.

Outlook and forecast

The projections refer to the 2008 and 2009 financial years.

General economic conditions

The economic indicators at the beginning of 2008 point to a significant slowdown in economic growth in the Eurozone. It is also expected that the current yield for long-term government bonds in Germany will average 4.1% in 2008 and 4.2% in 2009 (source: German Bundesbank). With regard to the exchange relationship between the US dollar and the Euro, the German Bundesbank is assuming that this will remain constant at 1.46 USD per Euro in the forecast period 2008 to 2009. For the twelve-month period up to December 2008, financial institutions are expecting to see the British pound increase slightly in value to a range from 0.70 to 0.72 per Euro.

Expected development of the biopharmaceutical industry

Drugs for the treatment of tumor diseases already account for the largest share of the global drug market. Experts are forecasting that the market volume of cancer drugs will grow continuously over the next few years. Projection puts global revenue at more than 60 billion USD in 2009. The current market volume is already approximately 50 billion USD (source: Datamonitor 2005).

The inadequate efficacy of therapies that are currently available and the increasing frequency of tumor diseases will continue to boost demand for innovative drugs. In the process, market growth will additionally be driven by innovative forms of therapy, such as the drug candidate EndoTAG™-1, which, with greater efficacy and milder adverse effects, may lead to considerable improvements in available therapies.

The market for drugs to combat autoimmune diseases is another growth market. The indication field of rheumatoid arthritis, in particular, will emerge globally as a market segment with total revenue well in excess of 10 billion USD (source: Datamonitor 2005).

Growth in the market for drugs to treat dermatological diseases in Europe is currently being driven by new drugs and technologies, among other things. Demand for improved, safer, and more cost-effective drugs, especially in niche indications such as rosacea, is increasing. Accordingly, innovative products are exhibiting significant market potential in these indications.

The continuing increase in cost pressure on the providers of medical care could lead to further legislation to reduce the cost of drugs. This could also affect the biopharmaceutical industry in Europe and the United States.

Increase in revenue from product sales expected – start of MediGene's own sales activities

The following developments are expected for the Specialty Pharma segment:

Positive momentum from market launch of the six-month depot formulation of Eligard® in additional European countries

The six-month depot formulation of Eligard® (Eligard® 45 mg) that was launched in Germany at the beginning of March 2007 is scheduled for launching in further European markets by the partner company Astellas Pharma in the 2008 financial year. MediGene expects this step to increase Eligard®'s market shares in Europe and to give a further boost to the total revenue generated with Eligard®. The six-month dosage is a unique selling point for Eligard® and therefore increases the drug's competitiveness. The one-month and three-month formulations of Eligard® are already being marketed in most European countries.

Veregen™ (Polyphenon® E Ointment) – first significant product revenue in the US

Polyphenon® E Ointment was developed for the treatment of benign tumors in the genital area, i.e. genital warts.

In December 2007, MediGene's marketing partner Bradley began the market launch of Polyphenon® E Ointment in the US under the brand name Veregen™. As a result, MediGene is expecting the first significant revenue from the marketing of this ointment on the US market in the 2008 financial year. In addition to income from the sale of the active ingredient to its partner Bradley, MediGene receives a share of the net revenue earned on the market.

Polyphenon® E Ointment – decision on the application for market authorization in Europe

In the spring of 2007, MediGene submitted an application for market authorization in Germany, Austria, and Spain. A decision on this application is expected during 2008. Should authorization be granted, the market launch will take place around six months thereafter. MediGene then intends to submit similar applications in other European countries.

Polyphenon® E Ointment – further indications

Decisions on the further development of the ointment for additional indications, such as actinic keratosis, will be made within the framework of the partnership with Bradley. The successful development of the ointment in an additional indication would open up additional commercial potential.

Oracea® – marketing to commence in the second half of 2008

In December 2006, MediGene acquired the European marketing rights for Oracea® from the US specialty pharmaceutical company CollaGenex. The application for market authorization has so far been submitted in nine European countries. The nine countries involved in this decentralized procedure refer to the Committee for Medicinal Products for Human Use, the body responsible for central authorization procedures in Europe. The Committee will decide by a simple majority whether or not to grant market authorization for Oracea®. MediGene is expecting the decision to be made in the second quarter of 2008. The market launch in Germany by the Group's own sales organization is scheduled for approximately six months after authorization. CollaGenex receives a share in the revenue earned with Oracea® from MediGene, as well as milestone payments when particular revenue targets are achieved.

MediGene's own sales organization for marketing Oracea® and Polyphenon® E Ointment to be established

MediGene is starting to build its own drug sales organization. The company intends to handle the marketing and selling of Polyphenon® E Ointment and other dermatological products in selected European countries itself. Just as MediGene's Polyphenon® E Ointment is prescribed mainly by dermatologists, so too is Oracea® – which allows for the joint distribution of the two products. MediGene will initially focus on a small number of high-potential markets and seek to establish distribution partnerships for other European countries. MediGene is planning to extend its portfolio of products for drug sales.

Results of clinical trial for EndoTAG™-1; preparation of next clinical trial for RhuDex®; clinical trial results for NV1020

The following targets have been set for the Biopharma segment:

EndoTAG™-1 – announcement of trial results in 2008 financial year

In April 2007, MediGene concluded its patient recruitment for the clinical phase II trial with the drug candidate EndoTAG™-1 for the treatment of pancreatic cancer. The interim results on the drug's efficacy are expected in the first half of 2008. A full analysis of the clinical data in respect of all the primary and secondary parameters examined will be completed by the first half of 2009 at the latest.

All in all, MediGene treated more than 200 patients with EndoTAG™-1 in three dosage groups and a comparison group (only current standard therapy with the drug Gemzar®). In December 2006, MediGene achieved positive interim results in the ongoing clinical phase II trial with the drug candidate EndoTAG™-1 in the treatment of pancreatic cancer.

EndoTAG™-1 – continuation of the clinical phase II trial for the treatment of breast cancer

Since April 2007, MediGene has been conducting a phase II trial with the drug candidate EndoTAG™-1 for the treatment of triple receptor negative breast cancer. The objectives of the trial are to examine the efficacy of EndoTAG™-1 in this highly aggressive form of cancer, and to generate additional data on drug safety. The trial is scheduled to include 135 patients and will be conducted at more than 20 centers in various European and Asian countries. The full analysis of the trial will be completed at a later date.

RhuDex® – preparation of a clinical phase II trial with new dosage form

In 2007, MediGene laid the foundation for the further development of the drug RhuDex®. The active ingredient's dosage form has been improved considerably, with the result that significantly higher serum levels can now be achieved for the active ingredient with far less starting substance. At the same time, MediGene has carried out an initial clinical phase II pilot trial on almost 30 patients with a development formulation. The objective of this trial is to gather initial data on the pharmacokinetics and efficacy of the active ingredient. On the basis of these data, which are expected for the second quarter of 2008, MediGene will prepare

R&D projects – goals achieved in 2007

Expectations for 2007		
Specialty Pharma		
Eligard®	Market launch of the six-month depot formulation of Eligard® in Germany by Astellas Pharma	Achieved
Veregen™/ Polyphenon® E Ointment	Market launch in the US by Bradley	Achieved
	Submission of application for market authorization in Europe	Achieved
Oracea®	Market launch in Europe	Delayed
	Market authorization in Europe by MediGene AG	Delayed
Biopharma		
EndoTAG™-1	Conclusion of patient recruitment and start of data analysis for the ongoing clinical phase II trial in the pancreatic cancer indication	Achieved
	Start of a clinical phase II trial in the triple receptor negative breast cancer indication	Achieved
RhuDex®	Trial data from an ongoing clinical phase IIa pilot trial	Delayed
NV1020	Conclusion of patient recruitment in the phase II section of the clinical trial	Achieved

R&D projects – status expected for December 2008

Goals for 2008	
Specialty Pharma	
Eligard®	Market launches of the six-month depot formulation of Eligard® in other European countries by Astellas Pharma
Polyphenon® E Ointment	Decision on the applications for authorization submitted in three European countries
Oracea®	Decision on the application for authorization in Europe
	Market launch in Germany by MediGene AG
Biopharma	
EndoTAG™-1	Publication of the data from the clinical phase II trial in the pancreatic cancer indication
	Continuation of patient recruitment for the ongoing clinical phase II trial in the triple receptor negative breast cancer indication
RhuDex®	Preparation of a further clinical phase II trial with the new dosage form in the rheumatoid arthritis indication
NV1020	Publication of the results from the clinical phase II trial in the liver metastases derived from colorectal cancer indication
mTCR technology and product candidates	Spin-off into a separate research entity with MediGene as a major shareholder

for a further clinical phase II trial with the new dosage form. The trial will be coordinated with the European authorities and is scheduled to begin in the first half of 2009. In addition to the pharmacokinetic and safety aspects, the main focus will be on examining parameters for the efficacy of RhuDex®.

NV1020 – publication of results from the clinical phase I/II trials

In September 2007, MediGene concluded its patient recruitment for a clinical phase II trial in the liver metastases derived from colorectal cancer indication. The data from this trial is scheduled for publication in 2008.

Expansion of the dermatological product portfolio

MediGene is planning to start building up its own sales organization for dermatological drugs in selected European countries in 2008. The starting point for its own selling and marketing activities comprises Polyphenon® E Ointment and Oracea®. MediGene plans to expand this product portfolio by acquiring new product licenses.

Financial forecast for 2008 and 2009

Increase in total revenue, lower loss on EBIT basis

MediGene is expecting its total income to increase significantly in 2008. The anticipated income will be generated by product revenue from the marketing of Eligard®, Veregen™, and Oracea®.

Operating costs will increase compared with the 2007 financial year. This forecast takes account of costs for the planned establishment of the sales and marketing organization, as well as higher research and development costs resulting from the expansion of activities for the main product candidates EndoTAG™-1 and RhuDex®.

As the increase in operating costs will be more than compensated for by the increase in revenue, MediGene is expecting its loss on EBIT basis to be lower than in the previous year.

The crucial determinants of whether MediGene achieves the revenue it is expecting for 2008 are an increase in income from Eligard®, the successful marketing of Veregen™ in the USA, and the authorization and market launch of Oracea® in Europe. In the 2008/2009 forecast period, MediGene is aiming to set up a partnership for a drug candidate which is currently undergoing the development stage.

Whether a development and marketing partnership is established will depend on positive results from MediGene's research and clinical development activities. If the scientific results fail to live up to expectations and new partnerships cannot be established, the management is assuming that cost savings will be realized at short notice in the projects in question.

For the 2009 financial year, MediGene's management is expecting a further improvement in its loss on EBIT basis. The forecast is based on the assumption that product revenue will continue to increase and research and development expenses will again be lower. The major contributors to this are expected to be the streamlining of research activities at the subsidiary MediGene Ltd. as a result of the planned spin-off of the mTCR technology and the establishment of a development and marketing partnership.

On the basis of its current business plans and the scenarios developed from those, the management is assuming that the financing of the company will be secure beyond the end of 2009.

Overall number of employees to increase

The establishment of the in-house sales and marketing organization in selected European countries will increase the number of employees by around 20 in the 2008 financial year. In order to further improve the technical and social competence of our employees, we will continue to offer a range of internal and external continuing education options in the future. It is anticipated that the Group will have around 200 employees by the end of 2008.

Investments and expenditure for research and development

A limited number of sizeable investments in property, plant, and equipment (> 100 T€) are planned for 2008 and 2009. Although the acquisition of new licenses to strengthen the dermatology portfolio is the Group's strategic goal, there are currently no upcoming investments in this area. Research and development expenditure remains the largest cost block.

Future procurement

Regarding procurement, MediGene does not expect developments in 2008 to deviate from those in the previous year. In 2008, MediGene will continue to purchase the drug Eligard® from QLT, Inc. for the European market. Polyphenon® E Ointment for both the US and European markets will be obtained from contract manufacturers in Japan and Germany. Oracea® will be purchased from CollaGenex.

Dividends

In view of the current income position, MediGene will not distribute any dividends. MediGene pursues the concept of residual dividend distribution. This stipulates that dividends should be paid whenever the company's financial resources cannot be reinvested in such a way that they will yield at least the same risk-equivalent return that shareholders could achieve on the capital market. In the medium term, MediGene will invest the available funds in the development of drugs. For this reason, no distribution of dividends can be expected for the time being.

Future legal corporate structure and organization/administration

No changes in the legal corporate structure are planned.

Environmental protection exceeds the required level

The measures already implemented will continue to be pursued. MediGene will continue to protect the environment beyond the level required by public authorities.

Executive Board

Martinsried, February 27, 2008
MediGene AG

Dr Peter Heinrich
Chief Executive Officer

Dr Thomas Klaue
Chief Financial Officer

Dr Ulrich Delvos
Chief Operating Officer

Consolidated income statement

of MediGene AG for the periods from January 1 to December 31, 2007 and 2006

in T€		Notes No.	2007	2006
1.	Product sales		**22,058**	30,549
2.	Other operating income		**1,819**	675
3.	**Total revenues**	(27)	**23,877**	**31,224**
4.	Cost of sales	(28)	**-18,493**	-10,669
5.	**Gross profit**		**5,384**	**20,555**
6.	Selling expenses	(29)	**-2,578**	-1,504
7.	General and administrative expenses	(30)	**-6,448**	-6,135
8.	Research and development expenses	(31)	**-28,025**	-21,275
9.	**Operating loss**		**-31,667**	**-8,359**
10.	Interest income	(32)	**2,041**	1,298
11.	Interest expenses	(32)	**-47**	-11
12.	Expenses from securities	(32)	**-555**	0
13.	Foreign exchange losses	(32)	**-1,117**	-534
14.	**Result before income tax**		**-31,345**	**-7,606**
15.	Taxes	(51)	**1,469**	715
16.	**Net loss from continued operations**		**-29,876**	**-6,891**
	Per share data in €			
	Net loss per share (»actual« and »fully diluted«)	(33)	**-0.95**	-0.31
	Weighted average number of shares outstanding		**31,541,103**	22,410,901

Consolidated balance sheet

of MediGene AG as of December 31, 2007 and 2006

Assets

in T€	Notes No.	31.12.2007	31.12.2006
A. Non-current assets			
I. Property, plant & equipment	(39)	1,802	1,391
II. Intangible assets	(40)	46,607	50,845
III. Goodwill	(36)	12,710	13,041
IV. Investments	(41)	891	1,501
V. Other non-current assets		96	97
Total non-current assets		62,106	66,875
B. Current assets			
I. Inventories	(42)	568	401
II. Accounts receivable	(43)	357	769
III. Cash and cash equivalents	(44)	46,511	52,498
IV. Other current assets	(43)	5,387	3,593
Total current assets		52,823	57,261
Total assets		114,929	124,136

Liabilities and shareholders' equity

in T€	Notes No.	31.12.2007	31.12.2006
A. Shareholders' equity			
I. Share capital	(45)	33,946	28,654
Number of shares issued and outstanding			
December 31, 2006: 28,653,630			
December 31, 2007: 33,946,481			
II. Additional paid-in capital	(46)	334,667	311,627
III. Accumulated deficit	(47)	-262,477	-232,601
IV. Other reserves	(48)	-3,043	832
Total shareholders' equity		103,093	108,512
B. Non-current liabilities			
I. Financial liabilities	(49)	194	98
II. Pension obligations	(50)	250	81
III. Other non-current liabilities		0	132
IV. Deferred taxes	(51)	1,656	955
Total non-current liabilities		2,100	1,266
C. Current liabilities			
I. Trade accounts payable	(52)	2,242	2,638
II. Embedded financial instruments	(53)	913	101
III. Other current liabilities	(52)	6,008	9,931
IV. Current financial liabilities	(54)	0	610
V. Accruals	(55)	437	780
VI. Deferred income		136	298
Total current liabilities		9,736	14,358
Total liabilities and shareholders' equity		114,929	124,136

Consolidated cash flow statements

of MediGene AG for the periods from January 1 to December 31, 2007 and 2006

in T€	2007	2006
Cash flow from operating activities		
Net loss for the period (before taxes)	**-31,345**	-7,606
Adjustments to reconcile net loss to cash used in operating activities:		
Stockbased compensations options/bonds	**479**	472
Depreciation	**1,359**	1,068
Gains from sales of property, plant & equipment	**0**	4
Unrealized losses from investments	**555**	0
Interest income	**-2,041**	-1,298
Interest expenses	**47**	11
Changes in:		
Inventories	**-166**	-401
Other assets and prepaid expenses	**-309**	-2,725
Trade accounts payable	**-396**	1,612
Accruals	**-343**	780
Other liabilities and deferred income	**-3.254**	5,530
Taxes	**1.377**	0
Net cash used by operating activities	**-34,037**	**-2,553**
Cash flow from investing activities		
Purchases of property, plant & equipment	**-1,108**	-4,281
Sales of property, plant & equipment	**0**	1
Net cash from acquisition of MediGene Ltd.	**0**	6,276
Purchase of available-for-sale investments	-188	0
Net cash used by/from investing activities	**-1,296**	**1,996**
Cash flow from financing activities		
Proceeds from capital increases	**28,154**	15,652
Expenses capital increase	**-981**	-1,270
Proceeds from stock options and bonds	**71**	22
Proceeds from/Repayments of convertible bonds	**-105**	-198
Interest received	**1,978**	1,225
Interest paid	**-41**	-2
Principal payments under finance lease obligations	**0**	-118
Net cash from financing activities	**29,076**	**15,311**
Increase/Decrease in cash and cash equivalents	**-6,257**	**14,754**
Cash and cash equivalents at beginning of period	**52,498**	37,625
Currency translation	**270**	119
Cash and cash equivalents at end of period	**46,511**	**52,498**

Consolidated changes in shareholders' equity

of MediGene AG for the periods from January 1 to December 31, 2007 and 2006

	Shares	Share capital	Capital reserves	Accumulated losses	Other reserves	Total share-holders' equity
	No.	T€	T€	T€	T€	T€
Balance Jan. 1, 2007	**28,653,630**	**28,654**	**311,627**	**-232,601**	**832**	**108,512**
Net loss for the year				-29,876		**-29,876**
Unrealized loss from QLT shares					-243	**-243**
Currency translation adjustments					-3,632	**-3,632**
Comprehensive income						**-33,751**
Capital increase	5,273,491	5,273	23,490			**28,763**
Capital increase expenses			-981			**-981**
Exercised options/bonds	19,360	19	52			**71**
Expenses on new options/bonds			479			**479**
Balance Dec. 31, 2007	**33,946,481**	**33,946**	**334,667**	**-262,477**	**-3,043**	**103,093**
Balance Jan. 1, 2006	**18,766,172**	**18,766**	**258,776**	**-225,710**	**-55**	**51,777**
Net loss for the year				-6,891		**-6,891**
Unrealized profit from QLT shares					243	**243**
Currency translation adjustments					644	**644**
Comprehensive income						**-6,004**
Capital increase	9,882,878	9,883	53,631			**63,514**
Expenses capital increase			-1,269			**-1,269**
Exercised options/bonds	4,580	5	17			**22**
Expenses on new options/bonds			472			**472**
Balance Dec. 31, 2006	**28,653,630**	**28,654**	**311,627**	**-232,601**	**832**	**108,512**

Notes to the consolidated financial statements

of MediGene AG, Martinsried/Planegg for the 2007 financial year

A) Description of business activity and corporate information

MediGene AG, Martinsried, (hereinafter also referred to as MediGene) is a biopharmaceutical company which focuses on the research, development, and commercialization of innovative drugs in indication fields of great medical necessity and therefore substantial commercial interest. Its R&D activities are focused on cancer and autoimmune diseases. The company conducts its own sales and marketing activities in the field of dermatology. The Group's main activities are described in the Notes under (H) »Segment Reporting.«

MediGene AG was founded in 1994 in Martinsried/Planegg near Munich (Germany) with share capital of 26 T€. In 1996, the company was transformed into a stock corporation. The company's headquarters are located at Lochhamer Straße 11, 82152 Martinsried, Germany. The company is entered in the Commercial Register of Munich Local Court under HRB 115761. MediGene AG has been a listed company since June 2000 (German Stock Exchange: Regulated Market, Prime Standard; SIN 502090; code MDG).

In addition to the parent company, MediGene AG in Martinsried, the Group includes two subsidiaries, MediGene, Inc., San Diego, USA and MediGene Ltd., Abingdon, Oxfordshire, United Kingdom (formerly Avidex Ltd.). The subsidiaries were acquired in 2001 (MediGene, Inc., USA) and 2006 (MediGene Ltd., United Kingdom) respectively.

B) Accounting principles

(1) Basic principles of preparation of consolidated financial statements

The consolidated financial statements have basically been prepared on a acquisition cost basis, except for available-for-sale investments and derivative financial instruments. Furthermore, the value of goodwill and intangible assets which are not yet available for use is examined by applying the fair values of the underlying cash generating units. The consolidated financial statements are presented in Euro and are also available in German. All values are rounded to the nearest thousand (T€) unless otherwise indicated.

(2) Statement of compliance with IFRS and the requirements under Section 315 a, German Commercial Code (HGB)

As a capital-market-oriented parent company as defined by Article 4 of Regulation (EC) No. 1606/2002, the MediGene Group applies the International Financial Reporting Standards (IFRS) in their entirety.

These consolidated financial statements were prepared in compliance with the International Financial Reporting Standards that are mandatory in the EU. The Executive Board of the company believes that these consolidated financial statements reflect all of the adjustments that are necessary for the presentation of the assets, financial, and income position at the end of the periods ending on December 31, 2006 and 2007. These consolidated financial statements of the MediGene Group also satisfy the requirements stipulated in Section 315 a HGB.

The consolidated financial statements of MediGene AG for the financial year ending December 31, 2007 were approved for publication by a resolution of the Executive Board on February 27, 2008.

(3) Changes in accounting policy and disclosures

Beyond the application of the new or revised accounting standards or new interpretations presented below, MediGene did not make any fundamental changes to its accounting policies.

First-time adoption of new and revised accounting standards and interpretations

The following new and revised International Financial Reporting Standards and Interpretations (IFRIC) were applied in the consolidated financial statements for the 2007 financial year:

IFRS 7	Financial Instruments: Disclosures
Amendment to IAS 1	Presentation of Financial Statements
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

The revised standards replace the previous versions of these standards and apply to those financial years that commenced on or after January 1, 2007. The adoption of the new and revised standards affects MediGene AG's consolidated financial statements for 2007 as follows:

IFRS 7 (»Financial Instruments: Disclosures«)
This standard requires disclosures that enable users of the financial statements to evaluate the significance of the financial instruments for the Group's financial position and earnings power and the nature and extent of the risks arising from those financial instruments. MediGene applied IFRS 7 for the first time as from January 1, 2007. Its application requires new disclosures in the relevant areas throughout the Notes. All in all, there has been no effect on the Group's assets or earnings position for the periods ending December 31, 2007 and December 31, 2006. Comparative information has been revised where necessary.

IAS 1 (»Presentation of Financial Statements«)
This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies, and processes for managing capital. These new disclosures are shown in Note 59.

IFRIC 8 (»Scope of IFRS 2«)
IFRIC 8 requires IFRS 2 to be adopted to any arrangement in which the fair value of a consideration is less than the fair value of equity instruments issued by the company. As equity instruments are issued only to employees and Executive Board members in accordance with the employee stock option program in the Group, the application of IFRIC 8 had no impact on the Group's assets, financial, or earnings position.

IFRIC 9 (»Reassessment of Embedded Derivatives«)
This interpretation states that the date for assessing whether there is an embedded derivative that must be separated from the host contract and reported as an embedded derivative is the date when an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The Group has one embedded derivative requiring separation from the host contract. From a current point of view, the application of this interpretation has no impact on the Group's assets, financial, or earnings position.

IFRIC 10 (»Interim Financial Reporting and Impairment«)
The Group first applied IFRIC 10 as per January 1, 2007. This interpretation stipulates that an entity may not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either equity instruments or financial assets carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the Group's assets, financial, or earnings position.

Future changes in accounting policy and disclosures
MediGene is waiving the early application of the following newly announced, but not yet mandatory standards and interpretations:

Standard/ Interpretation	Title	Effective
IFRS 8	Operating Segments	January 1, 2009
IAS 23	Borrowing Costs	January 1, 2009
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	March 1, 2007
IFRIC 12	Service Concession Arrangements	January 1, 2008
IFRIC 13	Customer Loyalty Programmes	July 1, 2008
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 1, 2008

IFRS 8 (»Operating Segments«)
This standard requires the disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments for the Group. MediGene is waiving the early application of this standard. The Group has come to the conclusion that the operating segments identified in the Group in accordance with IFRS 8 correspond to the operating segments previously identified in accordance with IAS 14 »Segment Reporting.« From a current standpoint, the application of IFRS 8 will have no impact on the Group's assets, financial, or earnings position.

IAS 23 (»Borrowing Costs«)
The revised standard IAS 23 Borrowing Costs was published in March 2007 and must be applied as from the financial year beginning after January 1, 2009. The standard requires the capitalization of borrowing costs that can be attributed to a qualifying asset. A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use. From a current standpoint, the application of this standard will have no impact on the Group's assets, financial, or earnings position.

IFRIC 11 (»IFRS 2 – Group and Treasury Share Transactions»)
According to this interpretation, agreements under which employees are granted rights to equity instruments of a company must be accounted for as share-based payment transactions settled with equity instruments even when the company acquires the instruments from a third party or when the shareholders make the required equity instruments available. MediGene is waiving the early application of this interpretation. The application of this interpretation would have no impact on the Group's assets, financial, or earnings position.

IFRIC 12 (»Service Concession Arrangements«)
IFRIC Interpretation 12 was published in November 2006 and must be applied for financial years that begin on or after January 1, 2008. The interpretation regulates the accounting treatment of obligations assumed and rights received within the scope of service concessions in the operator's financial statements. The companies included in the consolidated financial statements are not operators as defined by IFRIC 12. This interpretation will therefore have no impact on the Group's assets, financial, or earnings position.

IFRIC 13 (»Customer incentive Programmes«)
IFRIC 13 was published in June 2007 and must be applied for financial years that begin on or after July 1, 2008. According to this interpretation, credits (bonuses) awarded to customers must be accounted for as a separate component of the sale transaction within whose scope they were awarded. The amount of proceeds allocated as a liability to the award credits is measured by reference to their fair value, i.e. the amount for which the award credits could have been sold separately. The revenue is recognized in the period when the credits awarded are utilized or expire. As the Group presently has no customer incentive programs, this interpretation is not expected to have any impact on the consolidated financial statements.

IFRIC 14 (»IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction«)
IFRIC Interpretation 14 was published in July 2007 and must be applied for financial years that begin on or after January 1, 2008. This interpretation provides guidelines for determining the maximum surplus from a defined benefit plan that may be capitalized as an asset in accordance with IAS 19 Employee Benefits. The surpluses which currently partly result from defined benefit plans are of no particular significance. The application of this interpretation will therefore have no impact on the Group's assets, financial, or earnings position.

It has still not been decided whether the standards and interpretations IFRIC 12, IFRIC 13, and IFRIC 14 will be adopted in European law.

(4) Significant accounting judgments, estimates, and assumptions

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires the Executive Board to make judgments and estimates which influence the income, expenses, assets, liabilities, and contingent liabilities listed in the financial statements as per the balance sheet date. Naturally, these estimates and assumptions will only very rarely correspond to the circumstances which actually arise subsequently.

Judgments

The following judgments made by the management in the process of applying the Group's accounting policies are those which have the most significant impact on the amounts recognized in the financial statements.

Recording of one-time payments
The recording of one-time payments necessitates judgment on whether the agreed payment is being made for services rendered or for services still to be rendered. If, in the view of the management, all contracted services have been rendered and the other requirements for the recovery of revenue have been met, one-time payments are immediately recorded with effect on net income.

Deferred tax assets from loss carryforwards
The recognition of deferred tax assets requires certain assumptions lying within the management's judgment to be made. These concern, above all, the assessment of the circumstances and the time period in which deferred tax assets can be recovered by utilizing existing loss carryforwards. Given that further losses can be anticipated for the foreseeable future, the management has decided not to recognize tax claims to the extent that they exceed the tax liabilities.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty as per the balance sheet date which involve a significant risk of a material adjustment to the carrying amounts of assets and liabilities becoming necessary within the next financial year are discussed below:

Impairment of goodwill
The Group determines at least once a year whether goodwill is impaired. This requires an estimation of the value in use of the underlying cash generating units (CGUs) to which the goodwill is allocated. To estimate the value in use, the management must make an estimate of the expected future cash flows from the individual cash generating units, assess the chances of the underlying projects being developed successfully, and also choose a suitable discount rate. In view of the length of the planning periods up to 22 years, the assumptions and forecasts relating

to those periods involve significant uncertainties. The carrying amount of goodwill as per December 31, 2007, which amounted to 12,710 T€ (2006: 13,041 T€), is based on three CGUs, which in turn are based on one or more development projects (cf. Notes to the consolidated financial statements (36)).

Impairment of intangible assets

As per December 31, 2007, the Group had intangible assets amounting to 46,607 T€ (2006: 50,845 T€) at its disposal, of which 9,201 T€ (2006: 9,884 T€) was accounted for by capitalized licenses and 37,406 T€ (2006: 40,961 T€) by research and development projects at the UK-based subsidiary MediGene Ltd. As there is no active market for these projects, the cost model is used for subsequent evaluation. Furthermore, the projects are not yet available for use, which means that they have to be tested for impairment on an annual basis. The budgeting method used for this purpose is the same one that was used to examine the goodwill resulting from MediGene Ltd.'s projects.

Impairment of available-for-sale financial assets

The Group classifies the shares held in the listed Canadian company QLT, Inc. as available for sale and recognizes changes in their fair value under equity with no effect on income. When their fair value declines, the management makes assumptions about the decline of value in order to determine whether this represents an impairment that should be recognized in profit or loss in the result for the period. The QLT, Inc. shares had lost more than half of their carrying value as per the balance sheet date. The management therefore carried out an impairment of the shares' market value as per the balance sheet date. Accordingly, the market valuation reserve of 243 T€ was dissolved and in addition the impairment costs of 555 T€ were recorded with effect on income.

Capitalization of development costs

Development costs must be capitalized if the prerequisites for this in accordance with IAS 38 are satisfied. This requires a large number of estimates and assumptions by the management. In the period ending on December 31, 2007, research and development costs amounting to 28,025 T€ were reported with effect on net income. The MediGene Group did not capitalize any development costs.

Fair value

In principle, fair value is determined on the basis of market prices. The fair value of assets and payables for which no market prices can be determined is measured by using suitable valuation methods. These valuations are generally made using budget calculations based on underlying estimates by the management. The long-term nature of the planning periods means that such estimates are subject to a significant degree of uncertainty. MediGene has measured financial assets, derivative financial instruments, and intangible assets at fair value.

Defined benefit plans

The MediGene Group has concluded agreements on pension plans with employees and members of its management. The cost of defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates, and future pension increases. Due to the long-term nature of these plans, estimates of this kind are subject to significant uncertainties. Pension obligations as per December 31, 2007, amounted to 250 T€ (cf. Item (50)).

(5) Consolidation of subsidiaries

Consolidation principles

The consolidated financial statements are comprised of the individual financial statements of MediGene AG and its subsidiaries as per December 31 of any financial year. The companies within the reporting entity have applied uniform accounting policies.

The intra-Group balances, transactions, income, expenses, and gains and losses arising from intra-Group transactions, which are contained in the carrying amounts of assets, are eliminated in their entirety.

Subsidiaries

Subsidiaries are all of those companies for which the Group has the capacity to determine the financial and commercial policy. This regularly involves a share of more than 50% in the voting rights. The assessment of whether a controlling influence prevails takes account of the existence and impact of potential voting rights that can currently be exercised or converted. Subsidiaries are reported in the consolidated financial statements (full consolidation) from the point at which the possibility of control has passed to the Group. They are removed from the reporting entity on the date when the possibility of control ceases to apply.

Consolidated entity per Dec. 31, 2007	MediGene, Inc.	MediGene Ltd. (formerly Avidex Ltd.)
Registered	San Diego, USA	Abingdon/Oxfordshire, United Kingdom
Percentage stake %	100	100
Equity in T€	-625	-674
Net loss 2007 in T€	-3,076	-5,522

(6) Functional currency/Foreign currency translation

Foreign currency transactions and foreign business operations are reported in MediGene AG's consolidated financial statements in accordance with IAS 21 »The Effects of Changes in Foreign Exchange Rates.«

Functional currency and reporting currency

The consolidated financial statements are presented in Euro, which is the MediGene Group's functional and reporting currency. The items contained in the financial statements of the subsidiaries MediGene, Inc. and MediGene Ltd. are evaluated on the basis of the currency used in the primary commercial environment in which the respective company operates (functional currency). The functional currency of MediGene, Inc. is the US dollar (USD) and that of MediGene Ltd. the British pound (GBP).

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss statement. Non-monetary items valued at fair value in a foreign currency are translated at the exchange rate valid at the time when their fair value was measured. Receivables and liabilities currencies other than the functional currency are translated at the daily rate prevailing on the closing date. Purchases and sales in foreign currencies are translated at the rate prevailing on the date of the transaction. Foreign currency gains and losses are included explicitly as such in the profit and loss statement.

Group companies

Each company within the Group determines its own functional currency. The items in a company's financial statements are evaluated using its functional currency. In the consolidation of the foreign subsidiaries MediGene, Inc. and MediGene Ltd., the balance sheet items are basically translated at the rates prevailing on the closing date. Goodwill arising from the acquisition of MediGene Ltd., and fair value adjustments in the carrying amounts of the MediGene Ltd. assets and liabilities, are reported in the functional currency of that company and translated into Euro at the rate prevailing on the closing date. Any exchange rate differences are recognized as a separate equity component.

For the period up to January 1, 2005, the Group had exercised the option of having the goodwill which arose in connection with the acquisition of the US subsidiary MediGene, Inc. treated as a Group asset. For this reason, the respective goodwill is not subject to foreign currency translation.

Expenses and income are translated into the reporting currency for consolidation purposes at the respective average exchange rate over the course of the year. Translation differences in the balance sheet compared with the previous year's translation are recognized directly in equity without affecting net income.

The following exchange rates were used 2007 and as per the closing date December 31, 2007:

Foreign currency exchange rates 2007

	Rate as at closing date		Average rate for the year
1 € in USD			
Dec. 31, 2007	**1.4705**	**2007**	**1.37036**
Dec. 31, 2006	1.3182	2006	1.25574
1 € in GBP			
Dec. 31, 2007	**0.7351**	**2007**	**0.68443**
Dec. 31, 2006	0.6713	2006	0.68186

Source: Dresdner Bank AG, Reference Exchange Rates

(7) Property, plant, and equipment

In accordance with IAS 16 »Property, Plant and Equipment,« property, plant, and equipment are valued at cost and are subject to regular depreciation using the straight-line method. Property, plant, and equipment are depreciated over their expected useful life or, in the case of leasehold improvements, also over the possibly shorter contract lease period.

Software	3–4 years
Technical equipment and laboratory facilities	3–8 years
Leasehold improvements	5–10 years

Subsequent acquisition and production costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits ensuing from them will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss statement during the financial year in which they are incurred. If property, plant, and equipment are disposed of, the acquisition costs as well as the resultant accumulated depreciation are deleted from the accounts in the year of the disposal. Gains and/or losses on disposals are posted to results in other income and expenses. The purchase and disposal of property, plant, and equipment within the Group are eliminated during consolidation.

For details of the development of fixed assets, please see the statement of fixed assets (page 102 f).

(8) Goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is, as from the acquisition date, allocated to those cash generating units which are expected to benefit from the synergies of the combination. A cash generating unit to which goodwill is allocated

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and
- is not larger than a segment based on either the Group's primary or secondary reporting format determined in accordance with IAS 14 »Segment Reporting.«

Goodwill is subject to an impairment test conducted annually or where there is an indication of impairment in the underlying cash generating units.

(9) Intangible assets

Intangible assets with a finite useful life which were acquired separately are valued at acquisition cost. Acquired technology rights, patents, licenses, and licensed research and development projects, are capitalized as intangible assets if all three of the following criteria are fulfilled:

- The intangible asset is identifiable.
- The company is likely to profit from future commercial benefits generated by the asset.
- The asset's costs can be measured reliably.

The cost of an intangible asset acquired in a business combination corresponds to fair value as of the date of acquisition. Following their initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. As far as the useful lives of intangible assets are concerned, a basic distinction is made between finite and indefinite useful lives. Intangible assets with finite useful lives are amortized over their useful economic life and assessed immediately for impairment whenever there is any indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year.

Patents and licenses

MediGene has reported patents and licenses for patents at acquisition cost. The licenses are amortized over the term of the respective patent. The capitalized patents and licenses concern MediGene's product candidates Oracea® and EndoTAG™-1.

Capitalization of research and development costs

IAS 38 stipulates that development costs must be capitalized depending on the possible outcome of the development activities and the cumulative presence of certain prerequisites. MediGene's management believes that the company's development projects do not fulfill all of the criteria demanded by IAS 38 for capitalization as intangible assets. The reasons for this are the uncertainties inherent in the development of drugs and regulatory imponderables.

Research and development projects acquired through business combinations

As provided for by IFRS 3, all of the identifiable research and development projects arising from business combinations are capitalized. MediGene has reported the intangible assets arising from the acquisition of the subsidiary MediGene Ltd. in 2006 at the fair value prevailing at the time of acquisition.

Accounting policies for intangible assets

The accounting policies applied to the Group's intangible assets can be summarized as follows:

	Technology rights, Patents, and licenses	Research and development projects acquired through business combinations	Goodwill
Useful life	Limited by patent life	Limited by patent life	Indefinite
Amortization method	Straight-line amortization over patent life; amortization period 3–16 years	Impairment test at least once a year, straight-line amortization subsequent to market authorization	Impairment test at least once a year
Internally developed or acquired	Acquired	Acquired	Acquired

Details regarding the development of intangible assets can be found in the statement of fixed assets (page 102 f).

(10) Impairment of property, plant, and equipment and intangible assets

Assets with a finite useful life

Assets are subjected to regular depreciation. They undergo an impairment test if any relevant occurrences or changes in circumstances indicate that their book value might no longer be realizable. An impairment loss is reported as the amount by which the book value exceeds the asset's realizable value. The realizable amount is the fair value of the asset less disposal costs or the value in use, whichever is higher. For the impairment test, assets are combined at the lowest level for which cash flows can be identified and estimated separately (cash generating units, CGUs). If the book value exceeds the amount of the discounted cash flows, the fair value is measured and, if necessary, the asset is written off at this value.

Assets with an indefinite useful life

Assets that have an indefinite useful life are not subject to regular depreciation/amortization; they are tested annually for impairment.

Goodwill

Goodwill is reviewed for impairment at least once a year. An impairment test is conducted when events or circumstances indicate that the book value could be diminished. If the test reveals impairment, an amortization must be carried out. The impairment loss is determined by ascertaining the realizable value of the CGU. If the CGU's book value exceeds the fair value, the allocated goodwill and then the intangible asset are written off at this value. The calculation of the realizable value is based on forecast cash flows derived from the management's plans from this unit. The planning period in question encompasses the development and authorization phase, the period following the market launch, for which patent terms of between 10 and more than 20 years are assumed, and the achievement of peak sales figures five years after this point. Then the current book value is compared with the result of the project evaluation. The goodwill is allocated to the Group's identified CGUs by country of operation and business unit.

Intangible assets not yet available for use

Drug candidates that have not yet been granted market authorization are not yet utilizable. Accordingly, intangible assets based on drug candidates are tested for impairment at least once a year as per December 31. The impairment is determined by ascertaining the realizable value of the intangible asset. This is done by estimating the future cash flows and discounting it on the present value with a suitable factor. Possible causes of an impairment of a CGU could lie in preclinical or clinical research results or a change in the competitive situation. The annual impairment test for the intangible assets recorded during the acquisition of MediGene Ltd. in 2006 was carried out for the first time in the 2007 financial year. During the course of the year there was no indication of impairment for these assets.

(11) Financial assets

Financial assets are classified in the following categories:

- Financial assets at fair value through profit and loss
- Held-to-maturity investments
- Loans and receivables
- Available-for-sale financial assets

The classification depends on the purpose for which the financial assets were acquired. Accordingly, the management determines the classification of the financial assets at initial recognition and re-evaluates the designation at every closing date.

a) Financial assets at fair value through profit and loss
are comprised of the financial assets held for trading purposes which are classified in this category at initial recognition. This includes all derivative and embedded derivative financial instruments. MediGene has reported an embedded derivative financial instrument. This derivative has arisen from the Eligard® marketing agreement concluded with Astellas Pharma and concerns the invoicing of the flow of merchandise in the non-functional currency the US dollar.

b) Held-to-maturity investments
are non-derivative financial instruments with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and the ability to hold to maturity. The Group did not hold any investments in this category during the reporting periods.

c) Loans and receivables
are non-derivative financial assets with fixed or determinable payments which are not listed on an active market. They come into being when the Group provides a debtor directly with money, goods, or services with no intention of trading these receivables. They are included in current assets, except for those with maturities of more than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are reported in the balance sheet under trade accounts receivable and other assets.

d) Available-for-sale financial assets
are non-derivative financial assets that are designated as available for sale or are not classified in any of the three preceding categories. They are classified as non-current assets if the management has no intention of selling them within 12 months of the balance sheet date. After their initial recognition, available-for-sale financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity in other reserves. When investments are disposed of and/or impaired, the cumulative gain or loss previously recorded in equity is recognized in the profit and loss statement. The shares in the company QLT, Inc., Canada and the financial assets capitalized within the framework of the pension obligations are allocated to this category.

e) Fair value
The fair value of investments that are actively traded on organized financial markets is determined by referring to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current fair value of another financial instrument which is essentially the same, discounted cash flow analysis, and other valuation methods.

f) Valuation and impairment of financial assets
All purchases and sales of financial assets are recognized on the trading date – the date on which the Group undertakes to purchase or sell the asset. Financial assets which are not in the fair value through profit and loss category are initially recognized at fair value plus transaction costs. They are deleted from the balance sheet when the rights to receive cash flows from the investment have expired and the Group has essentially transferred all of the risks and potential rewards associated with their ownership.

Unrealized gains and losses arising from changes in the fair value of non-monetary assets classified as available for sale are recognized in equity. When assets classified as available for sale are sold or permanently impaired, the accumulated fair value adjustments are included in the profit and loss statement as gains and losses from financial assets.

Loans and receivables and held-to-maturity investments are reported in the balance sheet at amortized cost using the effective interest method. If there is any objective indication that impairment has occurred with loans and receivables reported in the balance sheet at amortized cost, the amount of the loss is calculated as the difference between the book value and the present value of the expected future cash flows, discounted at the financial asset's original effective interest rate (i. e. the effective interest rate determined at initial recognition). The impairment loss is recognized with effect on net income.

At every balance sheet date, the Group assesses whether there is any objective evidence that a financial asset or a Group of financial assets is impaired. In the case of equity instruments classed as available for sale, a significant or prolonged decline in the fair value of these equity instruments below their acquisition cost is considered when determining whether and to what ex-

tent the instruments are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment losses on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the profit and loss statement. As of the balance sheet date, MediGene carried out a write-off on the shares held in the listed Canadian company QLT, Inc. to the market price due to a substantial drop in the share price. Impairment losses on equity instruments that are recognized in the profit and loss statement are not reversed with effect on net income.

(12) Inventories

In accordance with IAS 2, »Inventories,« inventories are stated at the lower of acquisition cost and net realizable value. In principle, these acquisition costs are measured on the basis of direct costs including incidental acquisition costs.

(13) Cash and cash equivalents

Cash and cash equivalents include cash on hand, and bank deposits with original maturities of three months or less. They are reported in the balance sheet at their current value. For a financial investment to be classified as a cash equivalent, it must be possible to convert it without problems into a particular cash amount it may not be subject to any significant value fluctuations.

(14) Equity

Ordinary shares are classified as equity. Costs that are directly attributable to the issuance of new shares are included in equity net of taxes as a deduction from the issue proceeds.

Costs that are directly attributable to the issuance of new shares or those that are directly connected with the acquisition of a company are contained in the costs of the acquisition in question as part of the consideration for the acquisition.

(15) Share-based payment plans: stock options and convertible bonds

As a reward for their work, the Group's employees (including executives) receive share-based payment in the form of equity instruments. For this purpose, the Group has set up a share-based payment plan that is fulfilled by issuing new shares. The costs incurred in the granting of these equity instruments are measured at the fair value prevailing on the date of issuance. The fair values of the stock options that MediGene grants in return for employees' work performances are posted to expenses. The instruments are valued with the help of the binomial model. The binomial model takes account of, among other things, freeze periods, exercise thresholds, and the volatility of the underlying values and interest rates. The total expenses to be reported over the vesting period of the options comprise the fair value of the options at the time they were granted. The cost of the equity instruments is recognized, along with a corresponding increase in equity, over the period in which performance and/or service conditions have to be fulfilled, ending on the date on which the relevant employees become fully and irrevocably entitled to the award (the vesting period). No expenses are recognized for forfeited awards. Equity instruments, such as options and convertible bonds granted to employees, are reported in the accounts in accordance with IFRS 2.

On every balance sheet date, the estimate of the number of options expected to be exercisable is re-examined. The effects of any relevant changes to the original estimates are included in the profit and loss statement and accounted for by making an appropriate adjustment in equity over the remainder of the vesting period.

When stock options are exercised, 1 € per option is reported in the share capital and the remaining amount as a capital reserve.

When convertible bonds are issued to employees, the paid-in nominal amount of 1 € is reported in the balance sheet in accordance with IAS 32/IAS 39. At the same time, the option right inherent in the convertible bond is valued in accordance with IFRS 2. When the bonds are converted, the nominal amount is paid in and reported in such a way that 1 € of the total amount paid in is reported in share capital and the remaining amount, the difference between the conversion price and the nominal amount, in the capital reserve.

The dilutive effect of outstanding options and convertible bonds is reflected as additional dilution in the calculation of earnings per share.

(16) Debt

Debt is initially recognized at fair value, including any transaction costs incurred. In the subsequent periods, it is stated at amortized cost. Every difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit and loss statement over the period of the borrowings using the effective interest method.

The fair value of the debt component of a convertible bond is determined using the market interest rate for a similar non-convertible bond. This amount is reported as a liability at amortized cost until the conversion is carried out or the redemption becomes due. The remaining part of the proceeds constitutes the value of the conversion right. This is included in equity, net of income tax effects.

(17) Provisions

Provisions are formed in accordance with IAS 37 »Provisions, Contingent Liabilities and Contingent Assets« if there is a current obligation to a third party which arose from a past event and will probably lead to an outflow of resources in the future and whose amount can be estimated reliably. The cost of forming provisions is reported in the profit and loss statement. Provisions for obligations that are unlikely to lead to a change on property in the subsequent year are formed at the current value of the expected outflow of assets. The valuation of the provisions is examined on every closing date. Provisions in foreign currencies are translated as per the closing date.

(18) Pension obligations

Pension accruals are reported in the accounts in accordance with IAS 19 »Employee Benefits.« There are various pension plans in the Group. The Group has both defined benefit and defined contribution plans.

A defined benefit plan (DBP) is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service, and salary. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation (DBO) as per the balance sheet date less the fair value of the plan assets, along with adjustments for unrecognized actuarial gains or losses and past unrecognized service costs. The DBO is calculated annually by an independent actuary using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses arising from experience-based adjustments and changes in actuarial assumptions are posted to income over the employees' expected average remaining working lives if the balance of the cumulative unrecognized actuarial gains and losses for each individual plan as per the end of the previous reporting period exceed 10% of the defined benefit obligation or 10% of the fair value of the plan assets, whichever is higher.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (fund). The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all of the employees the benefits relating to employee service in current and previous financial years. The contributions are recognized in personnel expenses when they become due. Prepaid contributions are recognized as an asset in that there is a right to a cash refund or a reduction in future payments.

Past service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized using the straight-line method over the vesting period.

(19) Taxes

Actual tax

Actual tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities, using the tax rates and laws that have been enacted or substantively enacted as per the balance sheet date.

Actual taxes relating to items recognized directly in equity are recognized not in the profit and loss statement, but in equity.

Deferred taxes

Deferred taxes, in accordance with IAS 12 »Income Taxes,« are recognized using the liability method for all temporary differences between the tax base of the assets/liabilities and their book values in the IFRS financial statements. Deferred taxes are valued using the tax rates (and tax regulations) that apply as per the balance sheet date or have essentially been enacted and are expected to be legally effective when the deferred tax receivable is recognized or the deferred tax liability is settled. Identifiable assets acquired during the course of a business combination are recognized at fair value as per the acquisition date. Temporary differences arise if the book value is increased to the fair value, but, at the same time, the tax value corresponds to the previous owner's acquisition costs. This, according to IAS 12, results in a deferred tax liability that influences goodwill.

Deferred tax receivables are reported to the extent that a taxable profit, against which the temporary difference can be used, is likely to be available. Deferred tax assets on loss carryforwards are recognized only if realization is guaranteed with sufficient certainty.

The book value of deferred tax assets is reviewed as per every balance sheet date and is reduced by the degree of improbability of sufficient taxable income being available against which the deferred tax asset can, at least in part, be balanced.

Deferred taxes relating to items recognized directly in equity are also recognized directly in equity.

Deferred tax assets and deferred tax liabilities are measured using the tax rates that are expected to apply to the period in which the asset is realized or the liability is settled. This is based particularly on country-specific tax rates and tax laws that have been enacted or substantively enacted as per the balance sheet date. Deferred tax assets and deferred tax liabilities are offset against each other if the tax assets and income taxes relate to the same taxed entity and are levied by the same tax authority.

(20) Leases

Lease agreements for property, plant, and equipment where the Group is the lessee and essentially has all of the risks and potential rewards of ownership are classified under IAS 17 »Leases« as finance leases. Assets arising from **finance leases** are capitalized on commencement of the lease at the fair value of the leased property or the present value of the minimum lease payments, whichever is lower, with the lease obligations being carried as liabilities. Each lease payment is allocated between the liability and finance charges in order to achieve a constant interest rate on the finance balance outstanding. The lease obligations, net of finance charges, are included in other liabilities. The interest element of the lease payment is charged to the profit and loss statement. The property, plant, and equipment held under finance leases are depreciated using the straight-line method over the asset's expected useful life or the lease term, whichever is shorter. MediGene had no finance leases in 2007.

Leases where the Group is the lessee and the major proportion of the risks and potential rewards associated with the ownership of the leased property are retained by the lessor are classified as operating leases. Payments made under **operating leases** are charged to the profit and loss statement using the straight-line method over the period of the lease.

(21) Revenue recognition

Revenue is recognized when it is probable that the commercial benefits will flow to the Group and the amount in question can be estimated reliably. In the period under review, MediGene posted revenue from product sales, milestone and license payments, research and development payments from partners, research grants, and other income.

Revenue from product sales and recurring license payments

Eligard® has been marketed since May 2004 in Germany as MediGene's first drug. In January 2004, MediGene set up a partnership for the commercialization of Eligard® with Astellas Pharma Europe Ltd. (hereinafter referred to as »Astellas Pharma«). The income from product sales is recognized as soon as the risks and potential rewards associated with ownership are transferred and the product is delivered to Astellas Pharma. MediGene also receives royalties from the product sales generated by Astellas Pharma. MediGene recognizes license payments on the basis of the sales revenue posted by Astellas Pharma in each quarter.

Revenue from advance, milestone, and non-recurring payments

In accordance with IAS 18 »Revenue«, upfront payments (non-recurring advance payments) that MediGene receives from pharmaceutical partners upon conclusion of a new contract are accrued on the liabilities side. This item is reversed proportionately when a milestone is achieved and is reported in the consolidated profit and loss statement as revenue from product sales. Non-recurring license payments for which all risks and potential rewards pass to the licensee are recognized immediately as revenue.

MediGene receives milestone payments for the official acceptance of authorization applications that it has submitted, the market authorization of products by the authorities, the market launch of new products by its partners, and the attainment of research and development goals that were defined as part of the cooperation agreements. In such cases, no deferral is necessary. Accordingly, these payments are collected and posted to income immediately if no further performances have been agreed.

R&D payments received from partners and other income
Income from research cooperations is posted to net income, in accordance with IAS 18, when the contractually agreed objectives have been achieved. Contractually agreed payments and scheduled payments not linked to a future performance are posted as income on the condition that the cooperation partner confirms that the contractual agreements have been fulfilled. The grants are posted to net income when the expenses are recognized.

Interest income
Interest income is recognized when the income is earned.

(22) Government grants
Income from government research grants is recognized in accordance with IAS 20 »Accounting for Government Grants and Disclosure of Government Assistance.« MediGene receives proportionate grants when it incurs relevant expenses. The grants are recognized as income when the expenses have been recognized.

(23) Research and development costs
Research and development costs are reported in the accounts in accordance with IAS 38 (»Intangible Assets«). Research and development costs are posted to expenses in the period in which they are incurred. The Group's research and development costs include personnel expenses, consultancy fees, material and laboratory expenses, services, legal fees and charges, and other allocated costs such as rent and electricity, as well as depreciation on laboratory equipment. In the management's view, the development costs do not satisfy all of the criteria in IAS 38 for recognizing such costs as an intangible asset. These costs are therefore posted to expenses in the period in which they are incurred.

(24) Earnings per share
Earnings per share are calculated according to IAS 33 »Earnings per Share.«

Basic earnings per share
The basic earnings per share are calculated by dividing the profit (numerator) due to the equity suppliers by the weighted average number of issued shares during the financial year (denominator).

Diluted earnings per share
The diluted earnings per share are calculated by increasing the weighted average number of shares in circulation by all of the conversion and option rights (denominator). The net income for the period is adjusted for all changes in income or expenses that would result from the conversion of the potential ordinary shares with dilution effects. It is assumed that convertible bonds will be exchanged for shares and that the net profit will be adjusted for interest expenses and the tax impact. For the stock options, it is calculated how many shares could be acquired at fair value (determined by the average stock market value of the company's shares over the course of the year). The number of shares thereby calculated is compared with the number that would have resulted had the stock options been exercised. The conversion of potential ordinary shares is deemed to be completed on commencement of the period, or on the day, when the potential ordinary shares were issued.

(25) Cash flow statement
The cash flow statement was prepared in compliance with IAS 7 »Cash Flow Statements«. In determining the cash flow from ordinary activities, the company applied the indirect method and made its classification by operating activity, investing activity, and financing activity.

(26) Segment reporting/Business units
According to IAS 14 »Segment Reporting,« segment reporting must be carried out in accordance with the Group's internal organization and reporting structure. A business segment is a group of assets and operations engaged in providing products or services carrying risks and potential rewards that differ from those of other business units. A geographical segment is engaged within a particular commercial environment in providing products involving risks and potential rewards that differ from those of segments operating in other commercial environments.

C) Changes in the Reporting Entity

Compared with the same period in the previous year, there were no changes in the reporting entity during the 2007 financial year.

On September 27, 2006, MediGene acquired 100% of the outstanding shares and the associated voting rights in MediGene Ltd. Its main product, RhuDex®, is an active substance that is being developed for the treatment of rheumatoid arthritis. Other drug candidates are still at the research or preclinical development stage. The technology platform with monoclonal t cell receptors (mTCRs) constitutes the basis for additional new drugs.

The first-time consolidation of MediGene Ltd. was treated in accordance with IFRS 3 »Business Combinations.« The acquisition costs amount to 50,076 T€. These costs consist of the fair value of the issued shares (48,473 T€) and the costs incurred in the acquisition (1,603 T€).

Acquisition costs

In T€		
Shares issued at underlying current market value		48,473
Number of shares issued	8,157,787	
Underlying current market value per share (€)	5.96	
Direct cost arising from the acquisition of MediGene Ltd.		1,603
Total acquisition costs		**50,076**

Cash flow from acquisition

In T€	
Net cash acquired from MediGene Ltd.	7,879
Direct costs arising from the acquisition[1)]	-1,603
Total cash flow	**6,276**

[1)] Expenses for issuance of new shares are not included.

The purchase price allocation according to IFRS 3 presented below requires a large number of assumptions by the management upon initial recognition. The purchase price allocation as per December 31, 2006 was regarded as provisional. One year after the completion of the first-time consolidation, on September 27, 2007, the purchase price allocation shown below continued to apply and was therefore regarded as final.

Preliminary fair values of the assets acquired[1)]

In T€	Reported at acquisition	Book value according to IFRS[2)]
Cash	7,879	7,879
Tangible assets	385	385
Current research and development projects	40,574	0
Intangible assets and other assets	460	460
Total assets acquired	**49,298**	**8,724**
Financial obligations due	-1,356	-1,356
Deferred taxes	-1,645	0
Total liabilities	**-3,001**	**-1,356**
Underlying current market value of net assets	**46,297**	**7,368**
Goodwill from company acquisition	3,779	0
Total acquisition costs	**50,076**	**7,368**

[1)] The assets of MediGene Ltd. were translated from GBP into Euro at the exchange rate prevailing on September 27, 2006 (1 € = 0.6777 GBP).
[2)] Balance sheet of MediGene Ltd.

The goodwill arising from the company's acquisition is founded on synergy effects with MediGene's existing preclinical and clinical business units and regulatory affairs. In addition to this, line extensions for RhuDex®, and previously disregarded additional application potential in the mTCR product and platform area, also account for part of the goodwill.

D) Notes to the consolidated income statement

The profit and loss statement was prepared in accordance with the cost of sales method.

(27) Total revenue

In 2007, MediGene generated revenue almost exclusively through product sales and royalties with the drug Eligard®. In addition to this income, revenue includes a milestone payment for the market launch of the six-month Eligard® product from the partner company Astellas Pharma. The revenue earned for the first time by the end of 2007 with Veregen™, which had been launched on the US market, was not significant in relation to the total revenue for 2007.

MediGene's EndoTAG™ technology will receive grants totaling 1.8 million € from two research grant programs up to 2009. In addition, the subsidiary MediGene Ltd. received a grant from the Juvenile Diabetes Research Foundation and payments from its cooperation partner Sanofi Pasteur Ltd. for the mTCR technology.

Total revenue

In T€	2007	2006	Change
Product revenues and royalties	21,302	11,724	82%
Milestones	756	18,825	-96%
Product sales	**22,058**	**30,549**	**-28%**
Income from R&D cooperations	1,057	0	–
Research grants	623	518	20%
Other income	139	157	-11%
Total	**23,877**	**31,224**	**-24%**

(28) Cost of sales

The cost of sales arose primarily within the scope of the commercialization of the drug Eligard® and to a lesser extent in connection with Veregen™. The costs amounted to 18,493 T€ (2006: 10,669 T€). The costs are comprised of the purchasing of the products, participation of QLT, Inc. in the sale proceeds, and a milestone payment that MediGene made to QLT, Inc. in the first quarter of 2007 for the market launch of the six-month Eligard® product.

Cost of sales

In T€	2007	2006	Change
Milestones	1,503	1,174	28%
Royalities	6,937	3,956	75%
Cost of sales	10,053	5,539	81%
Total	**18,493**	**10,669**	**73%**

(29) Selling expenses

Selling expenses consist entirely of business development expenses. This comprises personnel expenses, consulting fees, market surveys, materials, and other service expenses. In the 2007 financial year, for the first time, these costs contained the business development activities at the subsidiary MediGene Ltd. in their entirety. To a lesser extent, costs were also generated by the preparations for the commercialization of Oracea® in Europe. There were no further sales and marketing activities for products in the reporting period.

Selling expenses

In T€	2007	2006	Change
Personnel expenses	1,422	746	91%
Consultancy	259	309	-16%
Office rent and utilities	96	75	28%
Depreciation	240	5	>200%
Other	561	369	52%
Total	**2,578**	**1,504**	**71%**

(30) General and administrative expenses

General and administrative expenses consist of the following:

General and administrative expenses

In T€	2007	2006	Change
Personnel expenses	3,263	3,092	6%
Consultancy	1,008	1,169	-14%
Office rent and utilities	368	306	20%
Depreciation	136	88	55%
Other	1,673	1,480	13%
Total	**6,448**	**6,135**	**5%**

The increase in administrative expenses results from the first full-year consolidation of MediGene Ltd.

(31) Research and development costs

Research and development costs consist of the following items:

Research and development costs

In T€	2007	2006	Change
Personnel expenses	10,099	7,963	27%
Office rent and utilities	1,215	1,038	17%
Laboratory material costs	994	685	45%
Third party expenses	10,954	7,360	49%
Depreciation	984	975	1%
Patents and Licenses	1,480	1,322	12%
Other	2,299	1,932	19%
Total	**28,025**	**21,275**	**32%**

R&D costs increased mainly as a result of the full-year consolidation of MediGene Ltd. and the progress and expansion of the clinical program for EndoTAG™-1. MediGene did not capitalize any development costs in the reporting period, as the management believes that not all of the requirements under IAS 38 were fulfilled.

(32) Financial result

Interest income was generated through the interest on available cash. Interest expenses were incurred mainly with interest on convertible bonds outstanding and by finance leases. All interest payments are expensed in accordance with IAS 23.

The contract concluded with Astellas Pharma for the marketing of Eligard® includes an embedded derivative, as the contract is carried out in US dollars and not in the functional currency of either contracting party. As per the closing date December 31, 2007, losses from this financial instrument totaling 812 T€ (2006: 101 T€) were recognized due to the fall in the value of the US dollar against the Euro.

The currency exchange losses arose in the translation of the US dollar and the British pound into Euro.

As per the closing date December 31, 2007, MediGene wrote shares in the Canadian company QLT, Inc. down to their market value. The shares (December 31, 2006: 1,501 T€) had lost more than half of their book value by the closing date (December 31, 2007: 703 T€). Therefore, management recognized an impairment loss of 555 T€. This took into account existing unrealized gains of 243 T€ from market valuation.

There were no interest expenses for finance leases in 2007 (2006: 3 T€).

Financial result

In T€	2007	2006	Change
Interest income	2,041	1,298	57%
Interest expenses	-47	-11	>200%
Sub-total	**1,994**	**1,287**	**55%**
Losses from embedded derivatives	-812	-101	>200%
Foreign currency losses	-305	-433	-30%
Expenses from securities (QLT, Inc.)	-555	0	–
Total	**322**	**753**	**-57%**

(33) Basic and diluted earnings per share

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

Undiluted earnings per share

In T€	2007	2006	Change
Net loss	-29,876	-6,891	>200%
Interest convertible bonds	4	3	33%
Result adjusted with effects from convertible bonds	**-29,872**	**-6,888**	**>200%**

Weighted average number of shares

In No.	2007	2006	Change
Weighted average number of shares	31,541,103	22,410,901	41%
Dilution			
Stock options	201,589	801,639	-75%
Convertible bonds	15,621	103,529	-85%
Weighted average number of shares (without own shares) with effects from dilution	**31,758,313**	**23,316,069**	**36%**

Since the average annual share price in 2007 amounted to 5,58 € (German Stock Exchange, XETRA closing price) and therefore was below the exercise price, only 217,210 stock options and convertible bonds of a total of 1,007,827 had a dilutive effect.

As per the closing date, the fully diluted net loss corresponded to the actual loss, as the conversion of ordinary share equivalents would have an anti-dilutive effect. After the balance sheet date, the exercise of options and the conversion of convertible bonds (32,650 new shares) increased the company's share capital to 33,979,131 shares (as per February 27, 2008).

(34) Personnel expenses

The expense items in the profit and loss statement include the following personnel expenses:

Personnel expenses

In T€	2007	2006	Change
Salaries and wages	11,844	9,512	25%
Social security costs	1,682	1,374	22%
Pension costs			
Defined contribution plans	96	80	20%
Defined benefit plans	69	69	0%
Stock options granted to directors and employees	479	472	1%
Other	613	294	108%
Total	**14,783**	**11,801**	**25%**

Personnel expenses by segment

In T€	2007	2006	Change
Specialty Pharma	1,366	1,423	-4%
Biopharma	8,820	6,608	33%
Other	4,597	3,770	22%
Total	14,783	11,801	25%

Employees by function (as at Dec. 31)

	2007	2006	Change
Business development and general administration	43	41	5%
Research and development	129	130	-1%
Total	172	171	1%

The full-year consolidation of the subsidiary MediGene Ltd. increased the average number of employees for 2007 to 159 (2006: 121). Accordingly, personnel expenses in the reporting period increased to 14,783 T€ (2006: 11,801 T€).

(35) Depreciation of property, plant, and equipment

In compliance with the cost of sales method, the amortization of intangible assets and depreciation of property, plant, and equipment are not reported separately in the profit and loss statement. Instead, they are allocated to general selling and administrative expenses and/or research and development costs. There were neither profits nor losses from the sale of fixed assets in 2007.

Depreciation of assets

In T€	2007	2006	Change
Fixed assets	676	544	24%
Intangible assets	683	452	51%
Capital lease	0	72	–
Total	1,359	1,068	27%

(36) Impairment of goodwill

As per December 31, 2007, goodwill amounted to 12,710 T€ (December 31, 2006: 13,041 T€), which was allocated to a total of three cash generating units (CGUs). Of this amount, 3,484 T€ (2006: 3,815 T€), which emerged from the acquisition of the British subsidiary MediGene Ltd., was assigned to CGUs 1 and 2. This portion of goodwill is accounted for in British pounds and has declined because of the depreciation of the British pound against the Euro. Goodwill of 9,226 T€ stems from the acquisition of MediGene, Inc. in 2001 (2006: 9,226 T€). This goodwill, which is based on CGU 3, is accounted for in Euro. The three cash generating units consist of the following development projects and technologies:

- RhuDex® (CGU 1)
- mTCR platform and development projects (CGU 2)
- G207 and NV1020 (CGU 3)

The impairment tests are conducted based on budgeting plans that, among other things, affect the budgets approved within the Group. The corresponding carrying values of goodwill are allocated to the CGUs as follows:

Carrying values of goodwill and intangible assets

In T€	MediGene Ltd.				MediGene, Inc.	
	CGU1		CGU2		CGU3	
	2007	2006	2007	2006	2007	2006
Book value of goodwill	2,477	2,713	1,007	1,102	9,226	9,226
Book value of intangible assets	26,601	29,129	10,805	11,832	–	–

Impairment test assumptions

In T€	MediGene Ltd.		MediGene, Inc.
	CGU1	CGU2	CGU3
Planning period in years	17	17 to 22	16
Project progress discount rate in %	32	30 to 43	25
Expected market share (max.) in %	30	35 to 50	10 to 35

MediGene Ltd.

Goodwill (December 31, 2007: 3,484 T€), which is based on the CGUs RhuDex® (CGU 1) and mTCR technology including the development projects (CGU 2), results from the acquisition of MediGene Ltd. in 2006. The carrying value of goodwill allocated to CGUs 1 and 2 is accounted for in the GBP currency and is converted in Euro at the daily exchange rate. Goodwill is based on synergies with MediGene's preclinical and clinical development divisions as well as on authorization. In addition, potential applications of RhuDex® to other disease areas and other potential applications in the area of mTCR products and platforms, which have not yet been taken into account, are contributing factors. The annual test for impairment was carried out for the first time on December 31, 2007 for CGUs 1 and 2. The test referred to

the allocated goodwill and intangible assets, which were not yet available for use. It did not result in any significant changes in the underlying assumptions and parameters.

Basic assumptions for measuring the value in use amount

The authorization and marketing of pharmaceutical products in the world's three largest pharmaceutical markets – the US, Europe, and Japan – are assumed for the cash flow models. The cash flow forecasts used include assumptions regarding future competition, probabilities of market entry, project progress, the product profile, and market share of a future drug candidate. With respect to assumptions for market growth, MediGene assumes an annual increase of 1% in the underlying patient populations for CGUs 1 and 2. TAs a rule, the forecast period stretches beyond the expected patent term. There are estimation uncertainties regarding the following assumptions underlying the measurement of the fair value of the two CGUs:

- Probabilities of market entry
- Project progress
- Expected market share

Probabilities of market entry – MediGene has made assumptions regarding the individual drug candidates' probability of market entry. The necessity of these assumptions results from the typical development risks for drugs. These vary according to the substance and active substance category and disease area. Consequently, management has used the standard industry success probabilities for the measurement models. These estimates additionally incorporate project-specific assumptions.

Project progress – According to industry statistics, the development of a drug usually takes 10–15 years and is divided into sequential phases. Significant factors influencing the development period are the results concerning effects and side-effects of a drug candidate gained during the individual phases. The assumptions that MediGene's management made for each project relates to the current project status, the project results to date, and historical experience regarding the disease area and the drug class.

Expected market share – Management compares the available data for the development project, the target profile, and – to the extent accessible – available development data and on this basis estimates the market share expected in the future.

Sensitivity of assumptions

With respect to the basic assumptions that are used in calculating the value in use of the CGUs 1 and 2, after considered judgment changes can occur that cause the book value to exceed the realizable value. The actually realizable value of the CGU 1 exceeds its book value by approximately 15 million €, and the actually realizable value of the CGU 2 exceeds its book value by approximately 12 million €. The effects of the basic assumptions on the realizable value are discussed below:

Market entry probabilities – Management has weighed the possibility that individual or all projects may not be developed successfully if the drug candidates turn out to have excessively strong side-effects and/or not be sufficiently effective. If the RhuDex® project is ended, the fair value of CGU 1 would be reduced to zero. Should it be impossible to successfully develop any of the drug candidates emerging from the mTCR platform, this would lead to an almost complete impairment of the CGU 2.

Project progress – The development of a drug is a time-consuming process that is dependent on many factors. Therefore, the company's management has evaluated to what extent development delays affect the realizable value. In case of a delay in the development of RhuDex® by approximately two years, the value in use of the CGU 1 would be reduced to its book value. Assuming that the development of three of the drug candidates assigned to CGU 2 is delayed at the same time by approximately one to approximately four years the value in use of the CGU 2 would be reduced to its book value.

Expected market share – The company's management is aware of the uncertainties of estimates regarding the future market share of drug candidates. In case of a reduction of the expected market share by approx. 40%, the fair value of the CGU 1 would decline to its book value. Assuming a 10–40 per cent reduction of the market share for three drug candidates at the same time, the fair value of CGU 2 would decline to the book value.

MediGene, Inc.

Goodwill of 9,226 T€ results from the acquisition of MediGene, Inc. in 2001. This goodwill is allocated to the Biopharma segment and is based on CGU 3 which is comprised of the G207 and NV1020 development projects of MediGene, Inc. The calculation

of the CGU value was based on forecast, discounted cash flows derived from the management's plans for this unit. The planning period is 16 years. The fair value exceeded the book value of CGU 3 that contains goodwill. The goodwill associated with CGU 3 is accounted for in Euro.

Basic assumptions for measuring the value in use amount

The estimate is based on the assumption of correspondingly long patent terms and the anticipated achievement of peak sales figures five years after market launch. Management has made various assumptions for the basic scenario. Weighted average growth rates are based on the sales development projections for newly introduced projects that are customary within the industry. Management has determined the budgeted gross margin (93%) based on past developments and on forecasts of future market development. The probability of entering the market is estimated to be 37% for each of the projects, NV1020 and G207. Market growth is estimated at 1% (relevant market for NV1020) and for G207 with 0.5% (relevant market for G207). Compared with the prior year period, none of the assumptions have changed. Here, MediGene is assuming maximum attainable market shares of 20%. A residual value is not computed. The impairment test is performed to the date of December 31 of a business year.

Sensitivity of assumptions

The actually realizable value of the CGU 3 exceeds its book value by approx. 21 million € (2006: approx. 21 million €). Changes in the basic assumptions have the following effects:

Probability of market entry – in case the development of the drug candidates NV1020 and G207 is unsuccessful, the value in use of the GCU 3 will be reduced to zero.

Expected market share – An estimate of the future market share of drug candidates is associated with a high degree of uncertainty. Therefore the management has reviewed the sensitivity of this assumption. If the estimated market share is reduced by 80% compared to the basic assumption, the realizable value in use will be reduced to the book value.

(37) Impairment of intangible assets

As per December 31, 2007, there was no indication of impairment for the pending EndoTAG™ patents and licenses or for the Oracea® license. MediGene performs scheduled amortization of these assets over the term of the underlying patents.

The value of the intangible assets accounted for in British pounds belonging to the MediGene Ltd. subsidiary has declined purely as a result of exchange rate fluctuations from 40.961 T€ to 37.406 T€. The cash generating units 1 und 2 are based on these assets (see item (36)). In December 2007, MediGene subjected these assets to an annual impairment test for the first time. No impairment was determined as the realizable amount of CGU 1 and 2 derived from cash flow forecasts was above the established book value for both cash generating units. For details on the basic assumptions and the sensitivity of these assumptions, see item (36).

(38) Cost of materials and services received

The expenses items in the income statement contain the following material costs:

Material costs

In T€	2007	2006	Change
Cost of sales	**18,493**	10,669	73%
Other materials	**995**	685	45%
Sub-total	**19,488**	**11,354**	**72%**
Cost of services	**10,955**	7,360	49%
Total	**30,443**	**18,714**	**63%**

The costs of purchasing the Eligard® product and to a lesser extent the substance of Veregen™ are reported under cost of sales. Material costs include expenditure for laboratory materials and chemicals of 995 T€ (2006: 685 T€). Services received of 10,955 T€ (2006: 7,360 T€) are comprised of the following items: conducting clinical studies 4,954 T€ (2006: 3,938 T€), market authorization 378 T€ (2006: 166 T€), production services 2,920 T€ (2006: 1,684 T€), and preclinical development services 2,703 T€ (2006: 1,572 T€). For operating leases expenses in the amount of 1.411 T€ (2006: 1.334 T€) accumulated.

E) Notes on the balance sheet

ASSETS

(39) Property, plant, and equipment

For the detailed composition and development of property, plant, and equipment, see the statement of fixed assets (page 102 f).

(40) Intangible assets

As a result of depreciation and currency fluctuations, intangible assets declined from 50,845 T€ to 46,607 T€. These include the Oracea® license, the intangible assets identified in the context of the MediGene Ltd. acquisition, and patents and licenses for the EndoTAG™ products and technology.

MediGene did not capitalize any internally generated intangible assets.

(41) Investments

Available-for-sale investments consist of interest in the Canadian partner company QLT, Inc. and assets related to pension agreements that do not qualify as planned assets. Investments are valued based on the published market prices on an active market as per the balance sheet date December 31, 2007. Accordingly, the shares in the Canadian company QLT, Inc. were subjected to an impairment test at the closing date. For the reason of the significant and permanent decline in share price, they were impaired to their fair value.

Investments

In T€	Dec. 31, 2007	Dec. 31, 2006	Change
Listed shares of QLT, Inc.	**703**	1,501	-53%
Listed shares in funds	**188**	–	–
Total	**891**	**1,501**	**-41%**

(42) Inventory

As of the balance sheet date, there was only unimpaired inventory of the Eligard® drug.

(43) Other current assets and trade receivables

Other current assets and trade receivables

In T€	Dec. 31, 2007	Dec. 31, 2006	Change
Royalties	**2,373**	1,662	43%
Research grants and R&D Tax Credit	**1,127**	177	>200%
VAT refund	**565**	614	-8%
Rent deposit	**359**	320	12%
Prepair expenses with a term <1 year	**820**	643	28%
Other	**143**	177	-19%
Total other assets	**5,387**	**3,593**	**40%**
Trade receivables	**357**	**769**	**-54%**

The trade receivables fall due as follows:

Ageing analysis of trade receivables

In T€	impaired	until 30 days	30–180 days	180–360 days	2–5 years	>5 years	Total
Balance at Dec. 31, 2007							
Other current assets	**0**	4,788	170	0	69	360	**5,387**
Trade receivables	**0**	357	0	0	0	0	**357**
Total	**0**	**5,145**	**170**	**0**	**69**	**360**	**5,744**
Balance at Dec. 31, 2006							
Other current assets	**0**	3,203	0	0	90	300	**3,593**
Trade receivables	**-89**	317	472	69	0	0	**769**
Total	**-89**	**3,520**	**472**	**69**	**90**	**300**	**4,362**

It was not necessary to conduct any impairment in the past financial year:

Allowance account

In T€	2007
Balance at Jan. 1, 2006	0
Allocation	89
Balance at Dec. 31, 2006	89
Unused amounts reversed	-89
Balance at Dec. 31, 2007	0

(44) Cash and cash equivalents

Cash and cash equivalents

In T€	Dec. 31, 2007	Dec. 31, 2006	Change
Cash and cash equivalents <3 months	46,511	52,498	-11%
Total	46,511	52,498	-11%

Cash and cash equivalents were invested to come to maturity in less than three months. The book value of cash and cash equivalents is equivalent to the fair value. The effective interest rate for short-term bank deposits is variable and ranged from 3.50% to 4.65% during the reporting period. The change in cash and cash equivalents is presented in the consolidated cash flow statement.

LIABILITIES

(45) Shareholders' equity

a) Authorized capital

As per December 2007, authorized capital had increased from 28,654 T€ to 33,946 T€. It is divided into 33,946,481 no-par-value ordinary shares of which 100% percent were outstanding as of the balance sheet date. On that date, 87.3% of the shares were tradeable. Some 1,223,668 shares, which were issued in 2006 in the context of the Avidex acquisition, are in escrow as collateral against potential warranty claims until September 27, 2008. The 3,084,282 shares that were newly issued at the beginning of September 2007 in exchange for a cash contribution to Santo Holding (Deutschland) GmbH, had not yet been approved for stock exchange trading as of the balance sheet date on December 31, 2007.

Authorized capital

	Number of shares	Share capital in T€	Capital reserves in T€	Total in T€
Balance at Jan. 1, 2006	**18,766,172**	**18,766**	**258,776**	**277,542**
Employee stock option plan				
Value of services provided			463	463
Proceeds from shares issued	4,460	5	17	22
Employee convertible bond plan				
Value of services provided			9	9
Proceeds from shares issued	120	0	0	0
Capital increase				
Cash	1,852,260	1,852	13,000	14,852
Non-cash acquisition of MediGene Ltd.	8,030,618	8,031	39,362	47,393
Balance at Dec. 31, 2006	**28,653,630**	**28,654**	**311,627**	**340,281**
Employee stock option plan				
Value of services provided			470	470
Proceeds from shares issued	8,944	9	17	26
Employee convertible bond plan				
Value of services provided			9	9
Proceeds from shares issued	10,416	10	35	45
Capital increase				
Cash	5,146,322	5,146	22,030	27,176
Non-cash acquisition of MediGene Ltd.	127,169	127	479	606
Balance at Dec. 31, 2007	**33,946,481**	**33,946**	**334,667**	**368,613**

Total changes in stock options

	2007		2006		2005	
	Average exercise price € per share	Number	Average exercise price € per share	Number	Average exercise price € per share	Number
Balance at Jan. 1	**7.30**	**801,639**	**6.88**	**701,429**	**6.80**	**604,379**
Granted	**5.88**	**242,718**	10.22	118,176	12.37	146,691
Exercised	**2.93**	**-8,944**	4.79	-4,460	6.26	-40,062
Forfeited	**8.38**	**-14,675**	11.39	-13,506	9.18	-9,579
Lapsed	**2.93**	**-74,742**	0	0	0	0
Balance at Dec. 31		**945,996**		**801,639**		**701,429**
Average exercise price € per share		**7.31**		7.30		6.88

The Executive Board was authorized by a resolution of the annual stockholders' meeting of May 25, 2007, with the consent of the Supervisory Board, to increase the share capital by up to 12,337,137.00 € up to May 24, 2012 by issuing a total of up to 12,337,137 new bearer ordinary shares (no-par-value shares) on one or more occasions against contributions in cash or kind (Authorized Capital 2007/I). The authorization can be used in partial amounts. The Executive Board is authorized, with the consent of the Supervisory Board, to lay down the further content of the share rights and the terms of share issue.

In February 2007, in the context of a capital increase 2,062,040 new shares were placed with institutional investors in Europe against a cash contribution. The issuing price was 6.10 € per share. Furthermore, in September 2007, in the context of a private placement, MediGene issued 3,084,282 new shares from approved capital at a price of 5.05 € per share to Santo Holding (Deutschland) GmbH.

b) Stock options

Equity instruments, such as options and convertible bonds granted to employees, are valued in accordance with IFRS 2.

Stock options are issued to managers and employees. They are first issued within the first year of the manager's or employee's tenure at the company. The exercise price for each option corresponds to the higher of the following two prices on the day of issue: either the quoted price or the average price from the previous 60 days in the German stock exchange's XETRA trading system, plus a 20% premium. The holders of subscription rights cannot exercise the option rights before expiration of a vesting period of two years starting from the allotment date of the respective subscription rights. The options have a contractual maturity term of 10 years. The Group has no legal or de facto obligation of any kind to repurchase the options, in cash or otherwise.

In 2007, 242,718 stock options were issued from Conditional Capital XVI (2006: 118,176 stock options from Conditional Capital XII). In accordance with the shareholders' resolution of May 25, 2007, Conditional Capital XVI was reduced to 300,000 € , as it is no longer to be used in the future. The annual stockholders' meeting instead resolved to create a Conditional Capital XVIII of 1,600,000 € for the issue of options.

The average exercise price for the options issued in 2007 is 5.88 €.

Stock options were exercised regularly during the period under review. The weighted average exercise price in the 2007 financial year was 2.93 €.

The instruments are valued using a binomial model. The following parameters are taken into account:

Valuation parameters stock option plan

	2007	2006	2005
Vesting period	**2 years**	2 years	2 years
Option duration	**10 years**	10 years	10 years
Hurdle rate	**120%**	120%	120%
Volatility	**42%**	40%	40%
Risk-free interest rate	**4.31%**	3.84%	3.24%

Expected volatility was calculated on a historical basis and is founded on a floating 250-day average as per the month the option was issued. The risk-free interest rate is equivalent to the yield of a hypothetical zero-coupon bond without risk of default with a 10-year maturity and was at 4.31% (source: Deutsche Bundesbank) as per the month of issue. The fair value of the stock options issued in the financial year was 2.45 € per option (2006: 3.58 €). For 2007, in accordance with IFRS, expenses for share-based forms of remuneration totaling 470 T€ were reported (2006: 463 T€) and are composed as follows:

Expenses stock option plan according to IFRS

In T€	2007	2006
Expenses stock option plan		
2005	**92**	315
2006	**198**	148
2007	**180**	0
Total	**470**	**463**

As per December 31, 2007, stock options outstanding are classified according to conversion price, number of options issued, remaining term to maturity, and number of options still exercisable as follows:

Conversion price and contractual life of issued stock option plan

Conversion price in €	Number of issued stock options	Remaining contractual life	Number of exercisable stock options
2.93	36,850	0	36,850
5.35	30,100	1	30,100
5.53	9,460	2	9,460
6.48	166,367	2	166,367
4.60	45,179	6	45,179
4.68	80,000	6	80,000
7.69	60,237	7	60,237
8.10	40,000	7	40,000
12.37	131,062	8	131,062
10.22	111,737	9	–[1)]
5.88	235,004	10	–[1)]
–	**945,996**	–	**599,255**

[1)] Stock options issued in 2006 and 2007 could not be exercised as of December 31, 2007.

The weighted average remaining contractual life of stock options outstanding is 6.59 years.

c) Convertible bonds

Convertible bonds outstanding are reported as follows. The fair value of the liability component and the equity conversion component is determined as per the convertible bond's issue date. The fair value of the liability component, which is included in long-term liabilities, is calculated with market interest rates for equivalent non-convertible bonds. The residual value that shows the value of the equity conversion component is reported in equity under other reserves.

The number of convertible bonds valid and still outstanding within the scope of the equity participation program was 61,831 (2006: 103,529) as per December 31, 2007. The weighted average remaining contractual life of convertible bonds outstanding is 1.89 years.

Total changes in convertible bonds

	2007	2006	2005
Balance at Jan. 1	**103,529**	**126,772**	**332,168**
Granted	**0**	0	9,000
Exercised	**-10,416**	-120	-203,426
Forfeited	**-10,800**	-258	-9,970
Lapsed	**-20,482**	-22,865	-1,000
Balance at Dec. 31	**61,831**	**103,529**	**126,772**
Average exercise price € per share	**7.72**	8.62	12.66

Conversion price and life of issued convertible bonds

Conversion price in €	Coupon in % p.a.	Number of issued bonds	Remaining contractual life	Number of exercisable bonds
3.80	2.5	5,300	1	5,300
4.83	2.5	9,121	1	9,121
4.97	2.5	1,200	1	1,200
7.69	2.5	12,210	2	12,210
8.08	2.5	25,000	2	25,000
12.37	2.5	9,000	3	–[1)]
		61,831		**52,831**

[1)] Convertible bonds granted in 2005 were not exercisable as of December 31, 2007.

d) Contingent capital and specification of contingent capital

The company's share capital was increased conditionally by 10,000,000 € (Conditional Capital XVII) by an annual stockholders' meeting resolution of May 25, 2007. The sole purpose of the conditional capital is to grant new shares to the holders of warrant-linked bonds or convertible bonds that are issued in accordance with the annual stockholders' meeting resolution of May 25, 2007 under agenda item 7 b) by MediGene AG or by companies in which MediGene AG has a direct or majority stake. The issuance of shares occurs at the established respective conversion or options price in accordance with the previously mentioned resolution. The conditional capital increase is carried out only to the extent that the holders of warrant or option rights make use of them or fulfill the conversion obligations arising from such bonds. If the shares come into being before the company's annual stockholders' meeting commences, they entitle their owners to a share in the profits from the beginning of the previous financial year; or if this is not the case, from the beginning of the financial year in which they come into being.

The company's share capital was increased conditionally by up to 1,600,000 new bearer ordinary shares (Conditional Capital XVIII) in accordance with the annual stockholders' meeting of May 25, 2007. The sole purpose of the conditional capital is to grant new shares to the holders of warrant-linked bonds or convertible bonds that are issued by the company in accordance with the annual stockholders' meeting resolution of May 25, 2007 under agenda item 8 b). The issuance of shares occurs at the established exercise price in accordance with the previously mentioned resolution. The conditional capital increase is carried out only to the extent that the holders of such options rights make use of them. If the shares come into being before the company's annual stockholders' meeting commences, they entitle their owners to a share in the profits from the beginning of the previous financial year; or if this is not the case, from the beginning of the financial year in which they come into being.

Specification of contingent capital

(No.)	Amount Dec. 31, 2007	Usage
I	215,777	Options
II	106,429	Options
III	125	TBG[1]-Loan
IV	13,770	Convertible bonds
V	654,329	Convertible bonds
VI	3,000	Convertible bonds
VIII	3,000	Convertible bonds
X	3,000	Convertible bonds
XI	2,600	Convertible bonds
XII	498,560	Convertible bonds
XV[1]	0	Convertible bonds
XVI[2]	300,000	Options
XVII[3]	10,000,000	Options
XVIII[3]	1,600,000	Options
	13,400,590	

[1] Cancelled by shareholders' resolution of May 25, 2007.
[2] Partially cancelled by shareholders' resolution of May 25, 2007.
[3] Newly created by shareholders' resolution of May 25, 2007.

e) Dilutive effect

As per the December 31, 2007 balance sheet date, the total number of shares outstanding was 33,946,481 and the number of »fully diluted« shares was 34,954,308. The changes in equity arising from the exercise of options and convertible bonds are specified in the consolidated changes in shareholders' equity.

(46) Capital reserves

8,944 stock options (2006: 4,460) and 10,416 convertible bonds (2006: 120) were converted in 2007. The capital reserve increased through the issue of shares against contributions in cash (February and September 2007).

Capital reserves

In T€	Jan. 1, 2006	Change	Dec. 31, 2006	Change	Dec. 31, 2007
Shares issued	268,648	53,632	322,280	23,490	**345,770**
Expenses capital increase	-13,561	-1,270	-14,831	-981	**-15,812**
Exercised stock options	695	16	711	18	**729**
Exercised convertible bonds	1,410	1	1,411	34	**1,445**
Expenses new options/bonds	1,584	472	2,056	479	**2,535**
Total	**258,776**	**52,851**	**311,627**	**23,040**	**334,667**

(47) Accumulated deficit

Accumulated deficit

In T€	Jan. 1, 2006	Change	Dec. 31, 2006	Change	Dec. 31, 2007
Retained earnings	-225,710	-6,891	-232,601	-29,876	**-262,477**
Total	**-225,710**	**-6,891**	**-232,601**	**-29,876**	**-262,477**

(48) Other reserves

Other reserves

In T€	Jan. 1, 2006	Change	Dec. 31, 2006	Change	Dec. 31, 2007
Unrealized gain/profit from market valuation QLT, Inc. shares	0	243	243	0	**243**
Realized losses from market valuation QLT, Inc. shares	–	–	0	-243	**-243**
Currency translations adjustments	-55	644	589	-3.632	**-3.043**
Total	**-55**	**887**	**832**	**-3.875**	**-3.043**

The interest MediGene holds in the company QLT, Inc. is measured at market price as per the balance sheet date. The company's shares are quoted in US dollars. The changes in value arising from share price fluctuations are recorded directly in equity. Currency translation differences arising from the translation into Euro are reported separately in currency translation difference and directly into equity. MediGene wrote off the QLT, Inc. shares to their market value as per December 31 and recorded the related effective losses in income. In addition, this balance sheet item contains currency differences of assets and goodwill reported in foreign currency. Foreign currency differences from the translation of financial statements of foreign subsidiaries are likewise recorded in this item.

(49) Long-term debt

Long-term loans as per December 31, 2007 include convertible bonds. For a description of the structure of the convertible bond program and related accounting, see Note item (45).

(50) Pension obligations

MediGene offers all of its employees in Germany defined benefit pension plans in the form of a benevolent fund. These pension plans are fully backed by insurance contracts. In addition, the Group has made agreements in the form of direct commitments with a guaranteed interest rate with members of the management and several employees. These commitments permit the conversion of bonus payments into defined benefit pension claims.

In accordance with IAS 19.7, the assets associated with these pension benefits do not constitute plan assets. The amount of the pension obligations is calculated as follows:

Pension accruals

In T€	Dec. 31, 2007	Dec. 31, 2006
Present value of funded obligations	1,152	933
Fair value of plan assets	-997	-840
Sub-total	**155**	**93**
Unrealized actuarial losses	83	-12
Effect of IAS 19.58 (b) limit	**12**	**0**
Liability in the balance sheet	**250**	**81**

The plan assets are comprised of employer's pension liability insurance policies. Actual income from liability insurance is 43 T€ (2006: 2 T€). The following amounts were reported in the income statement as personnel expenses:

Expenses recognized in the income statement

In T€	2007	2006
Current service costs	63	61
Interest expenses	41	29
Expected return on plan assets	-45	-24
Actuarial losses recognized in the year	-2	3
Effect of IAS 19.58 (b) limit	**12**	**0**
Total included in personnel expenses	**69**	**69**

Principal actuarial assumptions

In %	2007	2006
Discount rate	5.5	4.5
Expected return on plan assets	4.5	4.5
Future contingent right increases	4.5	4.5
Future pension increases	1/2	1/2

The 2005G guideline tables devised by Professor Klaus Heubeck were used as the biometric basis of calculation.

Changes in the present value of the defined benefit obligation are as follows:

In T€	Dec. 31, 2007
Benefit obligation at Jan. 1, 2006	**735**
Interest expenses	29
Service costs	61
Plan members contributions	178
Actuarial gains/losses	-70
Benefit obligation at Dec. 31, 2006	**933**
Interest expenses	41
Service costs	63
Plan members contributions	213
Actuarial gains/losses	-98
Benefit obligation at Dec. 31, 2007	**1,152**
thereof	
plans that are wholly or partly funded	**973**
plans that are wholly unfunded	**179**

Changes in the present value of the plan asset is as follows:

In T€	Dec. 31, 2007
Fair value of plan assets at Jan. 1, 2006	**576**
Expected return on plan assets	24
Employer contributions	85
Member contributions	178
Actuarial gains/losses	-23
Fair value of plan assets at Dec. 31, 2006	**840**
Expected return on plan assets	39
Employer contributions	86
Member contributions	28
Actuarial gains	4
Fair value of plan assets at Dec. 31, 2007	**997**

Amounts for the current and previous reporting periods for the life of the pension obligation are as follows:

In T€	2007	2006	2005	2004
Benefit obligation	1,152	933	735	36
Fair value of plan assets	997	840	576	0
Funded status	155	93	159	36
Unrecognised net actuarial losses	83	-17	-67	0
Experience adjustments on plan liabilities	-1	-2	-41	0
Experience adjustments on plan assets	-4	23	60	0

(51) Income taxes

The essential components of income tax expense for the 2007 and 2006 financial years are as follows:

Consolidated income statement

In T€	2007	2006	Change
Actual deferred taxes:			
R&D tax credit	2,389	0	–
Deferred taxes	-920	715	>-200%
Actual tax income reported in consolidated income statement	1,469	715	105%

In 2007, the MediGene Ltd. subsidiary received an R&D tax credit amounting to 2,389 T€. As a result, MediGene Ltd.'s existing unused loss carryforwards, or the deferred tax assets based on these loss carryforwards, were reduced. These deferred tax assets are balanced by deferred tax liabilities, stemming from the initial MediGene Ltd. consolidation. All together, the balance carried forward for deferred taxes increased from 955 T€ to 1.656 T€.

Deferred income taxes as per December 31, 2007 refer to the following items:

Deferred taxes

In T€	Consolidated balance sheet		Consolidated income statement	
	Dec. 31, 2007	Dec. 31, 2006	2007	2006
Deferred tax assets				
Deferred taxes on carry forward tax losses				
Germany	34,767	40,739	4,681	1,055
USA	14,519	14,889	1,192	1,055
United Kingdom	8,623	10,383	-922	715
	57,909	66,011	4,951	2,825
non deductible	-48,680	-54,392	-6,503	-874
Net	9,229	11,619	-1,552	1,951
Difference from useful life of tangible assets	991	1,030	-21	-4
Other taxes from grants	2,311	2,709	90	156
Derivative financial instruments	240	36	204	36
Convertible bonds	0	0	0	-40
Capital lease	0	0	0	-42
Milestone payments	0	0	0	-240
Liability pension insurance	83	113	-30	54
Valuation of accruals	9	0	-37	-12
	3,634	3,888	206	-92
non deductible	-2,368	-2,785	-34	-1,238
	1,266	1,103	172	-1,330
Deferred tax liabilities				
Capitalization of acquired licenses	12,083	13,557	408	93
Difference from useful life of assets	2	0	-2	32
Capital lease	0	39	39	26
Pension accruals	66	79	13	-55
Convertible bonds	0	2	2	-2
	12,151	13,677	460	94
Deferred tax income			-920	715
Deferred tax liability	-1,656	-955		
Stated in balance sheet				
Deferred tax asset	0	0		
Deferred tax liability	-1,656	-955		
Deferred tax liability	-1,656	-955		

In 2007, deferred taxes of 219 T€ were recorded in equity (2006: tax expense 1,670 T€)

Since further losses can be expected for the foreseeable future, the tax claims were not reported to the extent that they exceed the tax liabilities. Deferred taxes on the assets and liabilities sides were balanced against each other, as they are reported to the same tax authorities and refer to congruent periods.

Beginning on January 1, 2008, the calculation of deferred taxes in Germany is based on a mixed tax rate of 26.33%, consisting of a corporate income tax rate of 15%, a solidarity surcharge of 5.5% to corporate income tax, and trade tax of 10.5%.

Until December 31, 2007, a mixed tax rate of 35.98% was used for the calculation of deferred taxes. This consisted of a corporate income tax rate of 25%, a solidarity surcharge of 5.5%, and trade tax of 13.04%. The deductibility of the trade tax was taken into account when the mixed tax rate was determined. The country-specific tax rates were applied to the deferred taxes of the foreign operations.

The reported tax expenses diverge from the expected tax expenses that had been calculated by applying the nominal tax rate to revenue in accordance with IFRS. A transition of the differential effects is shown in the table below, which was calculated using the mixed tax rate of 35.98 % in effect until December 31, 2007.

As the subsidiaries do not have any undistributed profits, no deferred tax liabilities are recognized.

Deferred taxes

In T€	2007	2006
Earnings before tax	**-31,345**	-7,606
Expected tax income	**11,278**	**2,737**
Tax credit	**2,389**	0
Use of UK tax losses carried forward	**-3,201**	0
Increase of not reported deferred taxes from retained tax losses carried forward	**-6,503**	-874
Temporary differences	**-34**	-1,238
Non-deductible expenses	**-512**	-312
Effect of tax rate differences Germany	**-1,948**	–
Effect of tax rate differences USA	**124**	114
Effect of tax rate differences UK	**-473**	-160
Expenses capital increases	**358**	457
Other	**-9**	-9
Actual tax income	**1,469**	**715**

Tax income for the 2007 financial year consists not only of the effects from the emergence and reversal of temporary differences, but also of an R&D tax credit, which the MediGene Ltd. subsidiary received in Great Britain. As a result, existing, unused loss carryforwards, or the deferred tax assets based on these loss carryforwards, are reduced.

Carried forward losses

In T€	Dec. 31, 2007	Dec. 31, 2006
Corporate taxes Germany	**132,683**	110,591
Trade taxes Germany	**131,146**	109,059
State Tax USA	**35,306**	36,211
Federal Tax USA	**36,602**	37,578
Corporate Tax UK	**31,888**	37,777

Under the German Corporate Income Tax Act (KStG), tax losses can be carried forward basically for an unlimited number of years. The deduction of existing loss carryforwards is excluded when the company carrying those losses forward loses its tax identity.

The loss carryforwards of the MediGene Ltd. subsidiary in Great Britain can be utilized without restriction, unless its tax identity is not lost. By contrast, the loss carryforwards of MediGene, Inc. (USA) will expire between 2009 and 2026. In the United States, tax loss carryforwards based on federal tax can be utilized for 20 years, while those based on state tax expire after 10 years.

(52) Trade payables and other short-term payables
Trade payables of 2,242 T€ (2006: 2,638 T€) existed as outstanding accounts, mainly in services already used by MediGene. For a maturity analysis of financial liabilities we refer to item (59).

Short-term payables primarily consist of payments due for product licenses of 2,276 T€ (2006:1,380 T€) and services received, but not yet accounted for in the areas of clinical trials and authorization of 1,086 T€ (2006: 1,714 T€).

(53) Derivative financial instruments
The contract with Astellas Pharma to market Eligard® includes an embedded derivative since the contract is accounted for in US dollars and not in the functional currency of one of the two contractual parties. Gains (losses) from this derivative arise from exchange rate losses (gains) of the US dollar against the Euro, and their effect is always recorded at the end of the period. The valuation of the embedded derivative is based on Astellas Pharma's expected orders by June 30, 2008.

The option existing within the scope of the licensing agreement concluded with Virionics Corporation to incrementally receive an interest of up to 15% in Virionics also constitutes a derivative financial instrument. MediGene has not received any Virionics shares to date. Management assumes that the fair value of the corresponding derivative financial instruments is zero.

(54) Short-term financial debt
As per the balance sheet date of December 31, 2007, there was no short-term financial debt.

(55) Provisions
A provision of 780 T€ was formed in 2006 in order to fulfill the FDA requirements regarding the authorization of Veregen™. In 2007, MediGene began to implement the regulatory requirements. Of the provision, 86 T€ was used and 257 T€ reversed, so that as per the balance sheet date of December 31, 2007, the provision was 437 T€.

(56) Contingent liabilities
There were no accruals for the contingent liabilities listed below, as the risk of their utilization is regarded as improbable:

In the context of existing licensing agreements MediGene committed itself to milestone payments to the respective licensors amounting to a total of 16.5 million €. From the view of company management, no provision needs to be formed for this because the payments fall due only upon achievement of certain milestones.

As per the balance sheet date, there was a rent security guarantee (312 T€) and a bank guarantee (27 T€) vis-á-vis the respective lessor.

The future annual minimum leasing rates for operating leases are as follows:

In T€	Operating leases
2008	1,297
2009	1,167
2010	1,077
2011	1,054
Later	2,806
Minimum lease obligations	7,401

The company leases office and laboratory space, office furnishings, laboratory equipment, and motor vehicles. These constitute operating leases since the Group by contract does not carry the risks and potential rewards. The lease agreements have different terms, rental increase clauses, and extension options.

The Group has notice periods ranging from one month to ten years.

(57) Total unused/open credit lines
In addition to the cash and cash equivalents reported in Note (44), no open credit lines existed as per December 31, 2007.

(58) Related parties
Deemed to be related parties are those entities and/or individuals that can be materially influenced by the company or exert a material influence on the company. Related parties are the members of the Executive Board and Supervisory Board of the company.

The compensation of the company's Executive and Supervisory Board members and their shareholdings are listed individually under J) **Executive Board and Supervisory Board**. In the last financial year, there were no transactions other than these between the Group and related parties.

(59) Objectives and methods of financial risk management

The primary financial liabilities incurred by the Group, with the exception of derivative financial instruments, involve trade and other payables. The main purpose of these liabilities is to fund the Group's business operations. The Group has various financial assets, such as its shareholding in the Canadian company QLT, Inc., trade receivables, and cash and cash equivalents.

In addition, the Group has a derivative financial instrument that is embedded in the contract with Astella Pharma for drug marketing. The derivative relates to the processing of product deliveries in the non-functional US dollar currency.

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and fair value interest rate risk), credit risk, liquidity risk, and cash flow interest rate risk.

The following paragraphs describe the MediGene Group's financial risk factors and the associated financial risk management. In the view of management, the exposures to financial risk that currently exist and are described below are not significant.

Market risks

Interest rate risk

Fluctuations in market interest rates affect the cash flows of interest-bearing assets and also the fair value of convertible bonds and pensions. MediGene's management has deliberately decided against entering into arrangements to secure interest-rate independent cash flows as in investing cash the priority is on short-term accessibility in order to finance operations.

Analysis of sensitivity of interest rate risk (cash flows)

	Change in interest rates in basis points	Effects on result result before taxes in T€
2007	**50**	**248**
2006	50	226

Changes in interest rates also influence the plan-derived fair value of cash generating units, which is based on intangible assets and goodwill. Thus, an increase in the interest rates used for valuation (hypothetical zero coupon bonds, Bundesbank) can lead to an effective impairment of intangible assets or goodwill. For example, as a result of an increase in the risk-free rate, the fair value of the CGUs can be reduced to such an extent that a fair value impairment can become necessary.

Foreign exchange risk

A foreign exchange risk arises when future business transactions, assets reported in the balance sheet, and liabilities are denominated in a currency other than the company's functional currency. The Group operates internationally and is consequently exposed to foreign exchange risk arising from changes in the exchange rate between the US dollar and the Euro as well as the GBP and the Euro, respectively. MediGene AG's subsidiaries use as the functional currency the US dollar (MediGene, Inc.) or the British pound (MediGene Ltd.).

The foreign exchange risk primarily concerns income in US dollars realized with the sale of Eligard® and Veregen™ as well as payments from partner Bradley Pharmaceuticals, Inc. for Veregen™ milestones. The costs incurred in purchasing Eligard®, the active ingredient in the Veregen™ and Oracea®, as well as the license payments to the licensors that result from the sale of these products, are also subject to foreign currency risks. 97% of the Group's total revenue is generated in a foreign currency; the US dollar accounts for 95% of this amount. 96% of procurement costs are achieved in foreign currencies, of which the US dollar represents 100%.

MediGene reduces the foreign exchange risk resulting from its subsidiaries' operating activities by using the revenues generated in US dollars from its marketed products for financing the procurement of goods and the activities of its subsidiary. The following table shows the sensitivity of pre-tax earnings and capital to changes in the exchange rate between the Euro and the US dollar. All others variables remain constant.

Analysis of sensitivity of foreign exchange risk (USD)[1)]

	Exchange rate development of USD	Effects on results before taxes in T€	Effects on equity in T€
2007	**+5%**	**216**	**216**
	-5%	**-225**	**-225**
2006	+5%	244	244
	-5%	-249	-249

[1)] Referring to the respective exchange rate at due date.

At Group level, there exist foreign currency risks with respect to the subsidiaries' operating activities and their recognized assets and liabilities. Changes in the value of the British pound against the Euro have the largest impact on the MediGene Ltd. intangible asset values and the goodwill associated with this company. The resulting changes are recorded in equity under other reserves in an earnings neutral manner.

Analysis of sensitivity of foreign exchange risk (GBP)[1)]

	Exchange rate development of GBP	Effects on results before taxes in T€	Effects on equity in T€
2007	**+5%**	**133**	**2,437**
	-5%	**-147**	**-2,479**
2006	+5%	128	2,239
	-5%	-141	-2,239

[1)] Referring to the respective exchange rate at due date.

Share price risk of shareholdings

The Group is exposed to a risk of share price changes because of its shareholding in the Canadian company QLT, Inc. This risk involves 233,918 shares trading on the US NASDAQ exchange. This shareholding held by the Group was classified in the consolidated balance sheet as »available for sale«.

Credit risk

The Group has no significant concentrations of possible credit risks. There are two business relationships with large-scale customers: Astellas Europe Pharma Ltd. and Bradley Pharmaceuticals, Inc. The liquidity of the customers in question is monitored with the help of publicly available annual reports and consolidated financial statements.

For the Group's other financial assets, such as cash and cash equivalents and financial investments that are available for sale, the maximum credit risk, upon failure of the counterparties, is the book value of these investments.

Liquidity risk

The goal of MediGene's liquidity management is to maintain sufficient cash and marketable securities and the ability to issue its own shares on the market so that possible liquidity shortages can be overcome. MediGene assumes that it is able to issue marketable securities under current conditions.

As per December 31, 2007, the Group's financial liabilities had the maturity profile shown below. The information is based on contractual not discounted payments.

Financial liabilities

Amount in T€	daily	<3 months	3–12 months	1–5 years	>5 years	Total
Dec. 31, 2007						
Trade payables	2,134	108	0	0	0	**2,242**
Financial liabilities	0	0	0	194	0	**194**
Other debt	0	5,716	292	0	0	**6,008**
Total	**2,134**	**5,824**	**292**	**194**	**0**	**8,444**
Dec. 31, 2006						
Trade payables	2,502	136	0	0	0	**2,638**
Financial liabilities	0	0	0	229	0	**229**
Other debt	0	9,559	372	0	0	**9,931**
Total	**2,502**	**9,695**	**372**	**229**	**0**	**12,798**

Capital management

The primary goal of MediGene's management is securing sufficient liquidity to finance ongoing research and development programs and to expand the Group's own sales and marketing organization. Apart from the absolute amount of liquid funds the most important management variable is the liquidity coverage ratio, the ratio of cash and cash equivalents to total assets. In order to take advantage of equity and external financing options in the market, a sufficient equity ratio is required.

Performance indicators of capital control

		2007	2006
Liquid coverage ratio in %	(Cash + Securities) x 100 / Balance sheet total	**40**	42
Equity ratio in %	Equity x 100 / Balance sheet total	**90**	87

(60) Financial instruments

The carrying values and fair values of all financial instruments recorded in the consolidated financial statements are presented in the following table:

In T€	Book value		Fair value	
	2007	2006	2007	2006
Financial assets				
Cash and cash equivalents	**46.511**	52.498	**46.511**	52.498
Investments	**891**	1.501	**891**	1.501
Financial liabilities				
Financial debt	**194**	708	**194**	841
Derivative financial instruments	**913**	101	**913**	101
Other financial liabilities	**0**	132	**0**	132

Shares of publicly quoted QLT, Inc. and shares in funds, which are exhibited under investments, are valued at the market price as per the closing date. The fair value of the derivative financial instrument was based on current and forecasted (by the partner) orders for Eligard®, whereby a six-month period is reliably covered. The fair value of the convertible bonds was determined with the help of the binomial model using standard market interest rates.

(61) Major events since the period under review

MediGene focuses on research activities and explores external financing for the mTCR program

At the beginning of January 2008, MediGene announced that its projects were in an early research stage and that it would focus on preclinical development. MediGene's management assumes that this focus will lead to a tangible reduction of research expenditures at the latest in 2009. The company is also exploring alternative financing options for the mTCR research program of its British subsidiary MediGene Ltd. The possibility of external financing that has been discussed with potential investors could lead to the spin-off of the program into an independent research company. In such a case, MediGene assumes that it would become the largest single shareholder via MediGene Ltd. and also secure for itself the option to clinically develop selected projects on its own at a later time.

MediGene receives about 600 T€ in the context of the »BioChancePlus« competition from the Federal Ministry for Education and Development (BMBF)

In February 2008, MediGene announced that the BMBF was providing the Group with a research grant of almost 600 T€ over a period of three years in the context of the »KMU-innovative: Biotechnology – BioChance« stimulus program. MediGene's research activities in the area of immunology fulfill the stimulus criteria of »excellence,« »degree of innovation,« and »significance of the contribution to a solution of relevant contemporary social problems« and therefore are approved.

Appointment of Dr Thomas Strüngmann to the Supervisory Board of MediGene AG

On February 4, 2008, Dr Thomas Strüngmann was appointed to the Supervisory Board of the company.

No further changes concerning the business situation had occurred by February 27, 2008.

F) Consolidated statement of changes in equity

The consolidated statement of changes in equity for the financial years 2007 and 2006 is presented as a separate section of the notes.

G) Notes on the cash flow statement

The cash flow statement shows the origin and use of the cash flows in the financial years 2007 and 2006. It is therefore of pivotal significance for an assessment of the company's financial situation.

Cash flow from investing activities and cash flow from financing activities are determined on the basis of payments and receipts. Cash flow from operating activities is derived indirectly from net loss for the year.

Within the non-cash financing activities, no finance lease obligations were entered into for laboratory and office equipment in 2007.

Liquid assets at the end of the reporting period consist solely of cash and cash equivalents, in accordance with IAS 7.7. Cash and cash equivalents presented in the cash flow statement correspond to the item »cash and cash equivalents« in the consolidated balance sheet.

The cash flow statement was restructured as compared to the previous year, in order to achieve greater transparency particularly as regards the financial result. The amounts of the previous year were adjusted accordingly.

H) Segment reporting

Primary reporting – business units
As per December 31, 2007 the Group, in global terms, is organized into two primary business units: »Specialty Pharma« and »Biopharma.« The segments are comprised as follows:

Specialty Pharma products & product candidates:
- Eligard® for the treatment of hormone-dependent, advanced prostate cancer
- Polyphenon® E Ointment/Veregen™ for the treatment of genital warts and actinic keratosis
- Oracea® for the treatment of the skin disease rosacea (since December 2006)

Biopharma product candidates & technologies:
- EndoTAG™-1 for the treatment of solid tumors
- RhuDex® (since September 27, 2006)
- NV1020 for the treatment of liver metastases
- G207 for the treatment of brain tumors
- Anti-L1 antibodies
- Preclinical product candidates: EsoDex®, YourDex™, and HiDex™ (since September 27, 2006)

- EndoTAG™ technology
- mTCR technology platform (since September 27, 2006)
- HSV technology

There are no internal charges of a regular or planned nature between market segments and regions. For this reason, there are no details regarding such charges.

The income in the individual segments is generated by external business relationships.

Secondary reporting – geographic segments/segments by regions
The MediGene Group is active in Germany, the United States, and Great Britain. The Europe segment is comprised of the Group's activities in Germany and the UK.

Segment assets consist primarily of property, plant, and equipment, intangible assets, inventories, and receivables. They exclude deferred taxes. Segment liabilities consist of operating liabilities. Segment investments consist of property, plant, and equipment, intangible assets, and finance lease investments.

Segment reporting by market segments

In T€	Specialty Pharma	Bio-pharma	Other/not allocated	Eliminations	Total
2007					
Sales to external customers	22,046	1,814	17		**23,877**
Intersegment sales	0	0	60	-60	**0**
Total revenues	**22,046**	**1,814**	**77**	**-60**	**23,877**
Cost of sales	-18,493	0	0		**-18,493**
Gross profit	**3,553**	**1,814**	**17**		**5,384**
Selling expenses	-660	0	-1,918		**-2,578**
General and administrative expenses	0	0	-6,448		**-6,448**
Research and development expenses	-2,544	-25,481	0		**-28,025**
Operating result	**349**	**-23,667**	**-8,349**		**-31,667**
Financial result					**322**
Net result before taxes					**-31,345**
Taxes					**1,469**
Net loss					**-29,876**
Segment assets	1,816	59,317	53,796		**114,929**
Segment liabilities	0	136	11,700		**11,836**
Depreciation	-242	-732	-385		**-1,359**
Average number of employees	14	109	36		**159**
Segment investments	2	593	513		**1,108**
Provisions and employee benefit liabilities	0	0	250		**250**
2006					
Sales to external customers	30,554	629	41		**31,224**
Intersegment sales	0	0	152	-152	**0**
Total revenues	30,554	629	193	-152	**31,224**
Cost of sales	-10,669	0	0		**-10,669**
Gross profit	19,885	629	41		**20,555**
Selling expenses	-429	0	-1,075		**-1,504**
General and administrative expenses	0	0	-6,135		**-6,135**
Research and development expenses	-2,588	-18,687	0		**-21,275**
Operating result	**16,868**	**-18,058**	**-7,169**		**-8,359**
Financial result					**753**
Net result before taxes					**-7,606**
Taxes					**715**
Net loss					**-6,891**
Segment assets	1,902	63,886	58,348		**124,136**
Segment liabilities	0	367	15,257		**15,624**
Depreciation	-6	-901	-161		**-1,068**
Average number of employees	14	80	27		**121**
Segment investments[1)]	5	206	4,070		**4,281**
Provisions and employee benefit liabilities	0	0	81		**81**

[1)] Investments also include finance lease investments.

Segment reporting by geographical segments

In T€	Europe 2007	USA 2007	Group Total 2007	Europe 2006	USA 2006	Group Total 2006
Total revenues	**23,877**	**0**	**23,877**	31,224	0	31,224
Cost of sales	**-18,493**	**0**	**-18,493**	-10,669	0	-10,669
Selling, general and administration expenses	**-8,839**	**-187**	**-9,026**	-7,265	-374	-7,639
Research and development expenses	**-25,101**	**-2,924**	**-28,025**	-18,773	-2,502	-21,275
Operating result	**-28,556**	**-3,111**	**-31,667**	-5,483	-2,876	-8,359
Segment investments	**1,097**	**11**	**1,108**	4,278	3	4,281
Cash flows from operating activities	**-30,986**	**-3,051**	**-34,037**	155	-2,708	-2,553
Segment assets						
allocated	**60,965**	**168**	**61,133**	65,620	168	65,788
not allocated			**53,796**			58,348
Segment assets, total			**114,929**			**124,136**
Segment liabilities						
allocated	**136**	**0**	**136**	367	0	367
not allocated			**11,700**			15,257
Segment liabilities, total			**11,836**			**15,624**
Average number of employees	**154**	**5**	**159**	115	6	121

(62) Legal disputes

Prior to the market launch of Eligard® in 2004, MediGene had already filed a suit before the German Federal Patents Court for the invalidity of the German part of a European patent of its competitors Takeda Chemical Industries Ltd. and Wako Pure Chemical Industries Ltd. The patent concerns specifically designed high-molecular, biodegradable polymers. Following the market launch of Eligard®, Takeda Chemical Industries, Ltd., Takeda Pharma GmbH, and Wako Pure Chemical Industries, Ltd. (Takeda/Wako) sued the partners MediGene und Astellas Pharma GmbH in the summer of 2004 before the Düsseldorf Local Court for alleged patent infringement. In their lawsuit, they argue that the commercialization of MediGene's and Astellas' drug Eligard® infringes the aforementioned patent of the plaintiffs.

On April 20, 2005, the Third Nullity Board of the German Federal Patents Court decided in an oral hearing that all of the claims from the aforementioned patent that Takeda and Wako were asserting against MediGene and Astellas Pharma before Düsseldorf Local Court were invalid within the Federal Republic of Germany. Takeda and Wako have appealed this judgment before the Federal Court of Justice, whose verdict is expected in 2008 at the earliest. At the same time, Düsseldorf Local Court suspended the suit for patent infringement until the final ruling in the suit for invalidity, whereas the patent in question expired in early May 2006.

In the further course of the matter, MediGene lodged an appeal against the granting of European patents EP 1 310 517 B1 and EP 1 330 293 B1 to Wako Pure Chemical Industries, Ltd. and Takeda Pharmaceutical Company Ltd. and to Takeda Pharmaceutical Company Ltd. in April and May 2006, respectively. In addition, there was a parallel court case concerning patent infringement in the United States, in which MediGene's supplier and licenser QLT USA, Inc. (formerly Atrix Laboratories, Inc.) and the US marketing partner of QLT USA, Inc., Sanofi-Synthelabo, Inc., were sued on grounds of patent infringement by Takeda Abbott Pharmaceutical Product, Inc., Takeda Chemical Industries, Ltd., and Wako Pure Chemical Industries, Ltd. According to a press release issued by QLT USA, Inc. on February 9, 2007, this legal suit was settled out of court. Since the other parties have not yet made any indemnification claims and management regards the likelihood of their use as less than 50%, no provision is being formed. Furthermore, according to the licensing agreement with QLT USA, Inc., the licensor is to assume liability for any potential indemnification claims.

In May 2003, in order to eliminate any legal uncertainties regarding Polyphenon® E, the company opposed European patent no. EP 0 814 823 B1 of Indena S.p.A., Milan, Italy, which covers specific polyphenol fractions in green tea. Indena S.p.A. thereupon limited the patent to a scope which is of no significance for MediGene. In December 2005, the Opposition Division of the European Patent Office repealed the patent in its entirety. In February 2006, Indena S.p.A. appealed this decision. A decision of the board of appeal of the European Parliament is expected in March 2008. Management regards indemnification claims as highly unlikely. For this reason, no provision is being formed for them.

With the exception of the above-mentioned legal disputes, no legal disputes that could have a significant impact on the economic condition of the parent company and its subsidiaries were pending in the last 12 months, nor had any been threatened.

(63) German Corporate Governance Code

On November 29, 2007, MediGene AG's Executive and Supervisory Boards confirmed that MediGene AG complies with the majority of the recommendations of the German Corporate Governance Code, June 14, 2007 version. The specific recommendations of the Code not implemented by MediGene AG, are explained in the Declaration of Compliance in accordance with Section 161 of the German Stock Corporation Act (AktG). This declaration is permanently accessible in German and English on the company's website (http://www.MediGene.de/deutsch/corporate_governance.php).

(64) Auditing fees

Auditors were paid the following fees in the financial year under review:

Auditing fees of MediGene AG

In T€	2007	2006
Audit	123	85
Other certification or valuation services	21	150
Other services	11	45
Total	155	280

J) Executive and Supervisory Boards

(65) Executive Board

Changes on the Executive Board

In early May 2007, MediGene announced that the Chief Financial Officer Alexander Dexne was leaving the Group at his own wish. Effective June 15, 2007, Supervisory Board member Dr Thomas Klaue was named Chief Financial Officer. Dr Klaue has more than 15 years of international senior management experience in the areas of chemistry/pharmaceuticals, technology, and aviation. During this time, he developed and successfully implemented strategic management concepts, financial models, and M&A transactions in addition to leading globally operating business units. Previously, Dr Klaue was partner at the investment bank Fozzati Partners LLC, Frankfurt, where he advised major financial investors on transactions. Prior to that he was Vice President for Business Development with Infineon Technologies AG, Munich, for more than five years, where he held several senior management positions. He established the emerging biochip business, managed the strategic investment Group and the corporate venture capital fund, and was head of M&A, organizational development, and cooperation in the US, Europe, and Asia. Prior to that, he was Vice President M&A at DaimlerChrysler Aerospace AG, Munich (now EADS) for five years. Before that, he was the Director and head of department for the pharmaceutical and chemical industry at Treuhandanstalt, Berlin, the federal organization in charge of privatizing the former East German economy, where he gained four years of experience in the reorganization, financing, controlling of shareholdings, and privatization of pharmaceutical companies. Dr Klaue is a chemical engineer and holds a doctorate in business economics. He obtained his management education at the MIT Sloan School of Management and Harvard Business School in the United States.

End of December 2007, MediGene announced the appointment of Dr Frank Mathias as Executive Board Member for the new division Sales, Marketing and Business Development, effective April 1, 2008. Dr Mathias, previously General Manager of Amgen GmbH, Germany, will be in charge of the planned marketing activities of MediGene AG. This includes the set-up of a MediGene sales organization, the expected market launch of the drugs Oracea® and Veregen™, as well as the further extension of the company's product portfolio. Dr Frank Mathias possesses about twenty years of experience in drug marketing, acquired in several positions he held at Hoechst, Albert-Roussel Pharma, Servier Germany, and, lastly, at the worldwide leading biotech company Amgen.

Executive Board compensation

The total compensation paid to the members of the Executive Board in the last financial year was 1,131 T€, including pension expenses (2006: 1,173 T€). In addition, stock options at a fair value of 220 T€ were issued to the members of the Executive Board (2006: 216 T€). Executive Board compensation is comprised of fixed and variable components, as well as performance incentives to achieve a long-term increase in the company's value. The criteria for the variable compensation components are laid down in advance each year. Long-term compensation components consist of stock options. The intention is to create performance incentives aimed at sustained corporate success. Success benchmarks may not be subsequently changed. There were no advance payments to board members.

Executive Board compensation 2007[1]

			Other variable compensation as long-term incentive	
Executive Board member	Fixed compensation in T€	Variable compensation [2] in T€	Number of stock options no.	Value of options in T€
Dr Peter Heinrich, Chief Executive Officer Biochemist, Todtenweis-Sand	261	165	40,000	98
Alexander Dexne, Chief Financial Officer (until May 31,2007) Political Economist, Munich	85	25	25,000	61
Dr Thomas Klaue, Chief Financial Officer (from June 15, 2007) Chemical Process Engineer, Pullach	111	60	0	0
Dr Ulrich Delvos, Chief Operating Officer Medical Doctor, Munich	251	109	25,000	61
Total	**708**	**359**	**90,000**	**220**

[1] Additionally, 64 T€ were spent for Executive Board member pensions.

[2] On an accrued basis

(66) Supervisory Board

Changes on the Supervisory Board

MediGene AG gave notice on February 6, 2007 in accordance with Section 106 AktG that Mr. Michael Tarnow has withdrawn from the Supervisory Board, effective January 31, 2007.

On May 25, 2007, Mr. James Noble was appointed member of MediGene AG's Supervisory Board. James Noble began his career in 1983 as a Chartered Accountant with Price Waterhouse. Subsequently, he served as Director Corporate Finance at Kleinwort Benson Ltd. until 1990. From 1983 to 1990, James Noble was Director of Finance at Biotech plc. From 1997 to 2001, he assumed various Supervisory Board duties at PowderJect Pharmaceuticals plc, Oxford GlycoSciences plc (OGS), Advanced Medical Solutions plc, and a series of private British, European, and US biotechnology companies. From 2000 to 2006, he served as Chief Executive Officer of MediGene Ltd., Great Britain, which was acquired by MediGene AG in September 2006. In June 2007, James Noble was appointed to the Supervisory Board of MediGene AG. Until July 2007, he served as Director of Finsbury Worldwide Pharmaceuticals Trust plc., London. Currently, he is a member of various Supervisory Boards, including GW Pharmaceuticals plc. and Curagen Corporation, USA.

MediGene AG gave notice on October 24, 2007 in accordance with Section 106 AktG that Dr Manfred Scholz has withdrawn from the Supervisory Board, effective September 20, 2007.

On February 4, 2008, Dr Thomas Strüngmann was appointed to the Supervisory Board of MediGene AG. Dr Strüngmann studied business economics at the Universities of Augsburg and Munich and earned a degree in business administration. In 1977, he earned a doctorate in business management. One year later, he began to work as a product manager at Schering-Plough in Switzerland and Kenilworth, USA. In 1979, he was a Supervisory Board member at Durachemie. In the same year, he and his twin brother Dr Andreas Strüngmann founded the company Hexal. Around 10 years later, he became CEO of Hexal AG and EON Labs, USA. In 2005, he and his brother sold both companies. Subsequently, Dr Thomas Strüngmann was member of the Sandoz Executive Committee. Since October 2006, he has been Managing Director of ATHOS Service GmbH.

Supervisory Board compensation

The compensation paid to the members of the Supervisory Board totaled 220 T€ in 2007 (2006: 247 T€). Supervisory Board compensation is comprised of a fixed cash amount and payments for attended meetings. The duties of the Chairman and Deputy Chairman are considered according to their scope. Information on subscription rights of members of the managerial bodies and employees is provided under (69). No advance payments were made to the Supervisory Board.

Supervisory Board compensation 2007

Supervisory Board member	Fixed compensation in T€	Variable compensation in T€	Variable compensation as long-term incentive (no. of convertible bonds or stock options)	Compensation for individually performed services in T€
Prof. Dr Ernst-Ludwig Winnacker, Chairman	48	20	0	0
Dr Norbert Riedel, Vice Chairman	36	15	0	0
Dr Pol Bamelis, Member	24	10	0	0
Sebastian Freitag, Member	24	10	0	0
James Noble, Member (from May 25, 2007)	16	5	0	0
Dr Manfred Scholz, Member (until September 20, 2007)	12	0	0	0
Total	**160**	**60**	**0**	**0**

The members of the Supervisory Board possess the following occupational titles:

Prof. Dr Ernst-Ludwig Winnacker
since November 26, 1996
Chairman
Secretary General of European Research Council, Brussels, Belgium

Prof. Dr Norbert Riedel
since October 27, 2003
Deputy Chairman
Corporate Vice President, Chief Scientific Officer, Baxter International, Inc., Glendale CA, USA

Dr Pol Bamelis
since May 23, 2001
former Executive Board member, Bayer AG, Knokke, Belgium

Sebastian Freitag
since June 10, 2005
Investment banker, Frankfurt

James Noble
since May 25, 2007
former Managing Director, Avidex Ltd., Oxford, Great Britain

Dr Thomas Strüngmann
since February 4, 2008
Managing Director of ATHOS Service GmbH and Santo Holding (Deutschland) GmbH, Tegernsee

The members of the Executive and Supervisory Boards also hold positions on the following supervisory boards and/or similar bodies:

Prof. Dr Ernst-Ludwig Winnacker
- Bayer AG, Leverkusen
- Wacker Chemie AG, Munich
- KWS Saat AG, Einbeck (until December 16, 2007)

Prof. Dr Norbert Riedel
- Oscient Pharmaceuticals, Inc., USA

Dr Pol Bamelis
- Actogenix N.V., Belgium
- Innogenetics N.V., Belgium
- Oleon N.V., Belgium
- G.P. PolyTechnos, Ltd., Guernsey, Great Britain
- Recticel, Belgium
- Sioen N.V., Belgium
- Devgen N.V., Belgium
- Televic N.V., Belgium

Sebastian Freitag
- Wyser-Pratte EuroValue Fund Ltd., Cayman Islands

Dr Peter Heinrich
- MagForce Nanotechnologies AG, Berlin (since July 5, 2007)

James Noble (since May 25, 2007)
- GW Parmaceuticals plc, London, Great Britain
- Evolve Capital plc, Great Britain
- Axellis Ltd., Great Britain
- CuraGen Corporation, Branford, Connecticut, USA
- Albany Capital plc., Großbritannien (until December, 2007)

Dr Manfred Scholz (until September 20, 2007)
- ASSTEL Lebensversicherung, Köln
- Citigroup Global Markets Deutschland AG & Co KGaA, Frankfurt
- Droege & Comp., Düsseldorf
- Gothaer Finanzholding AG, Köln
- Pfleiderer AG, Neumarkt

Dr Thomas Strüngmann (since February 4, 2008)
- Wacker Chemie AG, Munich
- Südwestbank AG, Stuttgart

Michael Tarnow (until January 31, 2007)
- AXCAN Pharma, Inc., Canada
- Thallion Pharmaceuticals, Inc., Canada
- Entremed, Inc., USA
- Xenon Pharmaceuticals, Inc., Canada

(67) Directors' holdings and notes on treasury shares and subscription rights

Member	Shares 2007	Shares 2006	Options 2007	Options 2006	CB[1] 2007	CB[1] 2006
Prof Dr Ernst-Ludwig Winnacker Supervisory Board Chairman, Co-founder	**273,676**	268,676	**8,600**	37,700	**800**	1,600
Prof Dr Norbert Riedel Supervisory Board Vice Chairman	**3,300**	3,300	**5,590**	5,590	**0**	0
Dr Pol Bamelis, Supervisory Board member	**0**	1,000	**0**	0	**400**	800
Sebastian Freitag, Supervisory Board member	**0**	0	**0**	0	**0**	0
James Noble (from May 25, 2007), Supervisory Board member	**117,352**	–	**0**	–	**0**	–
Total Supervisory Board	**394,328**	**272,676**	**14,190**	**43,290**	**1,200**	**2,400**
Dr Peter Heinrich Chief Executive Officer, Co-founder	**503,505**	503,505	**156,636**	116,636	**0**	0
Dr Ulrich Delvos, Chief Operating Officer	**4,000**	2,000	**50,000**	25,000	**0**	0
Dr Thomas Klaue (from June 15, 2007), Chief Financial Officer	**3,000**	–	**0**	–	**0**	–
Management Board, total	**510,505**	**505,505**	**206,636**	**141,636**	**0**	**0**
Own Shares	**0**	**0**	**0**	**0**	**0**	**0**

[1] Convertible bonds

(68) Notification in accordance with Section 21 WpHG and announcement in accordance with Sections 25 and 26 WpHG

DZ BANK AG, Frankfurt am Main, notified MediGene AG on February 16, 2007, that its voting interest exceeded the thresholds of 3% and 5% as of February 15, 2007 and was 6.69% (2,062,040 votes) on that date.

DZ BANK AG, Frankfurt am Main, notified MediGene AG on February 23, 2007, that its voting interest had fallen below the thresholds of 5% and 3% as of February 23, 2007, and was 0.00% (0 votes) on that date.

Syngenta AG, Basel, Switzerland, notified MediGene AG on March 29, 2007, that its voting interest exceeded the threshold of 5% as of November 13, 2006 and was 5.84% (voting rights from 1,672,234 ordinary shares; MediGene AG issued no par value ordinary shares as the only class of shares) on that date. 0.94% of these voting rights were accounted for by Syngenta Crop Protection AG as from December 8, 2006 (voting rights from 270,546 ordinary shares) in accordance with § 22 para. 1 clause 1 no. 2 and no. 3, German Securities Trading Act (WpHG).

Mr. Rainer Kreifels, Germany, notified MediGene AG on April 5, 2007, that his voting interest in the company had exceeded the thresholds of 5% and 10% as of December 11, 2006 – in relation to the capital stock of MediGene AG as per December 11, 2006 – and amounted to 23.758% on this date. This corresponds to 6,806,950 voting rights. 23.758% (or 6,806,950) of these voting rights were allocable to him under § 22 para. 1 clause 1 no. 6, WpHG. According to the notification, 2,348,965 of these voting rights – corresponding to 8.1985% of the voting rights in relation to the capital stock of MediGene AG as per December 11, 2006 - were allocable to Advent Management Venture Partners LLP, London, United Kingdom, in accordance with § 22 para. 1 clause 1 no. 6, WpHG. A further 1,401,688 voting rights – corresponding to 4.892% of the voting rights in relation to the capital stock of MediGene AG as per December 11, 2006 – belonged to Syngenta Crop Protection AG, Basel, Switzerland.

Mr. Rainer Kreifels further notified MediGene AG on April 5, 2007, that his voting interest in the company had again fallen below the threshold of 10% as of January 16, 2007 – in relation to the capital stock of MediGene AG as per January 16, 2007 – and amounted to 9.699% on this date. This corresponds to 2,778,959 voting rights. 9.699% (or 2,778,959) of these voting rights were allocable to him under § 22 para. 1 clause 1 no. 6, WpHG. Of these 2,778,959 voting rights, 2,266,200 – corresponding to 7.9096% of the voting rights in relation to the capital stock of MediGene AG as per January 16, 2007, or 7.3476% of the voting rights in relation to the capital stock of MediGene AG as per February 15, 2007 – were allocable to Advent Management Venture Partners LLP, London, United Kingdom, in accordance with § 22 para. 1 clause 1 no. 6, WpHG.

Advent Ventures Partners LLP, Partnership, London, United Kingdom, notified MediGene AG on April 5, 2007, that its voting interest in the company exceeded the threshold of 5% as of December 11, 2006 and – in relation to the capital stock of MediGene AG divided into 28,651,070 ordinary shares as of December 11, 2006 –

and was 8.1985% on this date. This corresponds to 2,348,965 voting rights. Of these voting rights, 8.1985% (or 2,348,965 voting rights) were allocable to Advent Ventures Partners LLP – in relation to the capital stock of MediGene AG as per December 11, 2006 – in accordance with § 22 para. 1 clause 1 no. 6, WpHG.

Santo Holding (Deutschland) GmbH, Königstraße 1 A, 70173 Stuttgart, notified MediGene AG on September 25, 2007, that its voting interest in the company exceeded the thresholds of 3% and 5% as of September 19, 2007 and was 9.09% on this date. This corresponds to 3,084,282 voting rights.

Santo Holding AG, Alte Landstrasse 106, 8702 Zollikon, Switzerland, notified MediGene AG on September 25, 2007, that its voting interest in the company exceeded the thresholds of 3% and 5% as of September 19, 2007, and was 9.09% on this date. This corresponds to 3,084,282 voting rights.

Of these voting rights, 9.09% (corresponding to 3,048,282 voting rights) were allocable to Santo Holding AG in accordance with § 22 para. 1 clause 1 no. 1, WpHG.

Allocated votes were held by the following company, controlled by Santo Holding AG, whose voting interest in Medigene AG amounts to 9.09% (corresponding to 3,084,282 voting rights): Santo Holding (Deutschland) GmbH, Königstraße 1 A, 70173 Stuttgart.

The partnerships Dr Andreas and Susan Strüngmann, Germany; Nicole and Florian Strüngmann, Germany; Dr Thomas and Cornelia Strüngmann, Germany; and Janina, Fiona, Felix, and Fabian Strüngmann, Germany, notified MediGene AG on October 26, 2007, that the respective voting interests in MediGene AG of all the aforementioned persons with disclosure requirements exceeded the thresholds of 3% and 5% on September 19, 2007, due to those partnerships' united exercise of their voting rights, and amounted to 9.09 % of the voting rights on that date. This corresponds to 3,084,282 voting rights. Of these voting rights, 9.09 % (corresponding to 3,084,282 voting rights) were allocable to the aforementioned partnerships in accordance with § 22 para. 1 clause 1 no. 1, WpHG. Allocated votes are held via two companies jointly controlled by the aforementioned partnerships whose direct or indirect voting interest in MediGene AG amounts to 9.09 % (corresponding to 3,084,282 voting rights): Santo Holding AG, Zollikon, Switzerland and Santo Holding (Deutschland) GmbH, Stuttgart.

On December 14, 2007, the partnerships Dr Andreas and Susan Strüngmann, Germany; Nicole and Florian Strüngmann, Germany; Dr Thomas and Cornelia Strüngmann, Germany; and Janina, Fiona, Felix, and Fabian Strüngmann, Germany, notified MediGene AG in an announcement made to correct their notification of October 26, 2007, that the respective voting interests in MediGene AG of all the aforementioned persons with disclosure requirements had not exceeded the thresholds of 3% and 5% as of September 19, 2007. The voting rights held by Santo Holding (Deutschland) GmbH, which are attributed to Santo Holding AG, based in Zürich, in accordance with § 22 para. 1 clauses 1 and 3, para. 3, WpHG, are not attributed to the aforementioned partnerships in accordance with § 22 para. 1 clause 1 and 3, WpHG. This corrective notification has no influence on the voting interest notifications of Santo Holding (Deutschland) GmbH and Santo Holding AG (September 27, 2007).

Disclosures of Aggregate Voting Rights in Accordance with §26a WpHG:

On the respective cut-off dates, MediGene disclosed the following aggregate totals of voting rights: on February 27, 2007, 30,843,183 voting rights; on July 31, 2007, 30,856,783 voting rights; and on December 31, 2007, 33,932,537 voting rights.

THE EXECUTIVE BOARD

Martinsried, February 27, 2008
MediGene AG

Dr Peter Heinrich
Chief Executive Officer

Dr Thomas Klaue
Chief Financial Officer

Dr Ulrich Delvos
Chief Operating Officer

Consolidated changes in fixed assets

of MediGene AG for the periods January 1 to December 2007

in T€	Initial Cost						
	Jan. 1, 2007	Changes consolidation	Currency translation adjustments	Addition	Disposal	Market valuation	Dec. 31, 2007
Property, plant & equipment	9,625	0	-341	1,108	-281	0	10,111
Intangible assets	52,148	0	-3,582	0	0	0	48,566
Goodwill	14,886	0	-331	0	0	0	14,555
Investments	3,004	0	0	188	0	-243	2,949
Total	**79,663**	**0**	**-4,254**	**1,296**	**-281**	**-243**	**76,181**

of MediGene AG for the periods January 1 to December 2006

in T€	Initial Cost						
	Jan. 1, 2006	Changes consolidation	Currency translation adjustments	Addition	Disposal	Market valuation	Dec. 31, 2006
Property, plant & equipment	6,700	3,415	-6	488	-972	0	9,625
Intangible assets	7,424	40,574	357	3,793	0	0	52,148
Goodwill	11,071	3,779	36	0	0	0	14,886
Investments	2,761	0	0	0	0	243	3,004
Total	**27,956**	**47,768**	**387**	**4,281**	**-972**	**243**	**79,663**

	Accumulated Depreciation						Book Value	
	Jan. 1, 2007	Changes consolidation	Currency translation adjustments	Addition	Disposal	Dec. 31, 2007	Dec. 31, 2007	Dec. 31, 2006
	8,234	0	-320	676	-281	8,309	1,802	1,391
	1,303	0	-27	683	0	1,959	46,607	50,845
	1,845	0	0	0	0	1,845	12,710	13,041
	1,503	0	0	555	0	2,058	891	1,501
	12,885	**0**	**-347**	**1,914**	**-281**	**14,171**	**62,010**	**66,778**

	Accumulated Depreciation						Book Value	
	Jan. 1, 2006	Changes consolidation	Currency translation adjustments	Addition	Disposal	Dec. 31, 2006	Dec. 31, 2006	Dec. 31, 2005
	5,563	3,031	-8	616	-968	8,234	1,391	1,137
	881	0	-30	452	0	1,303	50,845	6,543
	1,845	0	0	0	0	1,845	13,041	9,226
	1,503	0	0	0	0	1,503	1,501	1,258
	9,792	**3,031**	**-38**	**1,068**	**-968**	**12,885**	**66,778**	**18,164**

Report of the Executive Management Board

The preparation of these Consolidated Financial Statements and the information contained in the Management's Discussion & Analysis (MD&A) are the responsibility of the Executive Board of MediGene AG. The consolidated accounts are drawn up on the basis of the International Financial Reporting Standards (IFRS), as applicable throughout the EU, and the additional requirements of German commercial law pursuant to Sec. 315 a (1) HGB. The Executive Board of the company believes that these Consolidated Financial Statements reflect all of the adjustments that are necessary for the portrayal of the assets, financial and income position at the end of the periods ending in December 2006 and 2007. These Consolidated Financial Statements certain estimates and assumptions by the Executive Board that influence the figures 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, the deployment of reliable software and standardized operating 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 integrated system is supplemented by written guidelines and work instructions as well as by the targeted selection and ongoing training of qualified employees. The result of all this is a secure basis that guarantees that the course of business is represented in a way that corresponds to the actual situation.

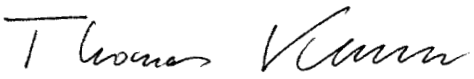
In accordance with the decision of the Shareholders' Meeting, Ernst & Young, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich, an independent auditing company, has audited the Consolidated Financial Statements and the group MD&A. The Supervisory Board discussed the Consolidated Financial 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 (see p. 106 of this Annual report).

Martinsried, February 27, 2008

MediGene AG
The Executive Management Board

Dr Peter Heinrich
Chief Executive Officer

Dr Ulrich Delvos
Chief Operating Officer



Dr Thomas Klaue
Chief Financial Officer

Auditor's Report

We have audited the consolidated financial statements prepared by MediGene AG, Martinsried/Planegg, comprising the balance sheet, the income statement, the notes to the consolidated financial statements, cash flow statement, and statement of changes in equity, together with the group management report for the fiscal year from January 1, 2007 to December 31, 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315 a (1) HGB [»Handelsgesetzbuch«: »German Commercial Code«] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315 a (1) and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, February 27, 2008

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr Napolitano	Breyer
German Public Auditor	German Public Auditor

Report from the Supervisory Board

In fiscal year 2007, the Supervisory Board performed in full its statutory duties and the duties specified in the Articles of Incorporation. On the basis of verbal and written reports by the Executive Board, the Supervisory Board kept the corporation's management under continuous surveillance.

The Executive Board regularly reported 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 during four meetings (March 3, 2007, May 25, 2007, August 8, 2007, November 11, 2007) and in further telephone discussions. On specific issues employees of the company were consulted. The Supervisory Board was also available to the Executive Board for one-on-one discussions. In general, the Chairman of the Supervisory Board spoke with the Chairman of the Executive Board at least once a week, keeping himself and his Supervisory Board colleagues updated 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 according to 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 orientation.

Aside from existing development projects, the main focal points of the Supervisory Board's discussions were the establishment of the company's own sales organization, the marketing of Polyphenon® E Ointment (Veregen™), the evaluation of all the company's research projects, and the sustainable financing of research tasks.The Executive Board regularly informed the Supervisory Board about the financial status of the Company and about the development of the share price. In addition, the Supervisory Board requested and received comprehensive reports about the budget for 2007, which the Supervisory Board approved after detailed consultation. The Supervisory Board also satisfied itself that the risk management system implemented was functioning as intended.

Supervisory Board Committees

In the entire fiscal year 2007, there were an Audit Committee and a Compensation Committee. The two Boards each convened four times during the course of 2007.

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.

The Committees regularly informed the Supervisory Board Plenum about its word and discussions in the following Supervisory Board meeting.

Corporate Governance
In 2007, the Supervisory Board also dealt with MediGene's fulfillment of the recommendations of the German Corporate Governance Codex. On November 29, 2007, the Executive Board and the Supervisory Board issued the annual declaration of compliance in accordance with §161 Stock Corporation Act. The Executive Board and the Supervisory Board have committed themselves to follow the recommendations of the German Corporate Governance Codex accordingly. In 2007, no conflicts of interest of members of the Supervisory Board have occurred.

Members of the Supervisory Board
The composition of the Supervisory Board changed as follows in 2007: Mr. Michael Tarnow resigned from his post as member of the Supervisory Board effective from January 31, 2007. Mr. James Nobel was elected as a member of the Supervisory Board at the annual stockholders' meeting of May 25, 2007. Dr Manfred Scholz resigned from his seat on the Supervisory Board for health reasons on September 20, 2007. Due to illness, he participated in fewer than half of the Supervisory Board meetings in 2007. Much to our regret, Dr Manfred Scholz passed away on January 12, 2008. Dr Thomas Strüngmann was appointed as a member of the company's Supervisory Board by a resolution of Munich Local Court on February 4, 2008.

Annual Report And Consolidated Financial Statements
The auditor chosen by the Shareholders' Meeting and commissioned by the Supervisory Board, Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich, audited the Financial Statements of MediGene AG, the Consolidated Financial Statements for the fiscal year 2007, and the MD&As of MediGene AG and the group, and granted them the unqualified audit certificate.

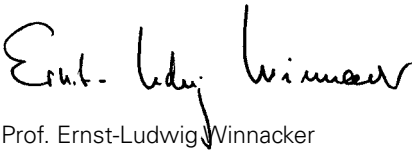
The Supervisory Board received all balance sheet and income statements and the auditor's reports in time for its balance sheet meeting. They were discussed in full detail during the balance sheet meeting of the Supervisory Board held on February 27, 2008. The auditor participated in the balance sheet 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.

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 2007, which are thus adopted.

The Supervisory Board would like to thank the Executive Board and members of staff for their successful efforts for the company during the fiscal year 2007.

Munich, February 27, 2008



Prof. Ernst-Ludwig Winnacker
Supervisory Board Chairman

Glossary

A

Actinic keratosis
Precursor of malignant spinocellular carcinoma

Autoimmune diseases
Diseases caused by an overreaction to one's own body tissue

B

Biopharma
The Biopharma segment consists of MediGene's EndoTAG™ and oncolytic herpes simplex virus technology, as well as the product candidates EndoTAG™-1, NV1020 and G207 that are derived from the above

Biopharmaceutical
Research into and development of drugs and therapies (pharmaceutics), based on biotechnology and molecular biology

Biotechnological
Utilization of natural and modified biological systems and their components

Blockbuster
Product with an annual sales volume exceeding 1 billion €

C

Catechines
Natural substances contained in green tea

CGU
Cash Generating Unit

D

Dermatology
Branch of medicine that deals with the treatment of skin diseases as well as benign and malignant skin tumors

Depot formulation, technology
Drug in the form of an implant which slowly disintegrates and releases the active substance over a set period of time

DRS (Deutscher Rechnungslegungs Standard)
German Accounting Standard

Drug candidate
Drug under development

Drug pipeline
All drug candidates in development

E

EBIT
Earnings before interest and taxes. MediGene uses the term EBIT as the result for the period before taxes, net interest income, and currency exchange gains/losses.

Endothelial cells
Form the walls of blood vessels

F

FDA – Food and Drug Administration
US regulatory authority

Fully integrated company
Company that covers all core areas of a business field (here: research, development, marketing)

G

Genital tumors, genital warts
Benign tumors of the skin in the genital region, caused by infection with specific human papilloma viruses

GBP
Great Britain pound

H

Herpes simplex virus (HSV)
Virus that may cause cold sores, for instance. Infection frequently does not lead to apparent symptoms

HGB (Handelsgesetzbuch)
German Commercial Code

Hormone
Biochemical transmitter substance which controls and coordinates biochemical and physiological processes

Human papilloma virus (HPV)
Virus that may cause genital warts

I

IFRIC
International Financial Reporting Interpretations Committee

IFRS
International Financial Reporting Standards

Indications
Reason for the execution of a medical examination or treatment

L

Licensing
Sale or acquisition of a license for development and/or marketing rights to a product

Liposomes
Minute, hollow globules, composed of fat molecules

O

Oncology
Science of tumors and tumor-related diseases

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

P

Pipeline
All the drug candidates that are under development

Placebo
Drug dummy, pharmacologically ineffective

Prostate cancer
Malignant tumors of the prostate gland (part of the male crotch)

R

R&D
Research and development

Receptor
Protein on the cell surface facilitating cell communication

Royalties
Fixed participation in sales

S

Speciality Pharma
The Specialty Pharma segment encompasses Medigene's drug Eligard®, Veregen™ (Polyphenon® E Ointment) and Oracea®

Solider Tumor
Tumor localized in organs

T

T-cells
Certain type of white blood cells, part of the immune system

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

Toxicology
Science of the harmful effects of substances on health

Multi-year overview

MediGene Group

in T€	Change 2007/2006	2007[4]	2006[4]	2005[4]	2004[4]	2003[5]	2002[5]	2001[1][5]	2000[5]
Income statements									
Revenues	-28%	**22,058**	30,549	19,555	12,501	0	0	0	0
Other operating income	169%	**1,819**	675	127	637	1,742	3,425	7,264	6,081
Cost of sales	73%	**-18,493**	-10,669	-9,077	-5,930	0	0	0	0
Gross profit	-74%	**5,384**	20,555	10,605	7,208	1,742	3,425	7,264	6,081
Business development and general administration expenses	18%	**-9,026**	-7,639	-6,123	-6,294	-7,926	-7,177	-5,736	-2,528
Research and development expenses	32%	**-28,025**	-21,275	-15,997	-15,627	-21,825	-26,721	-21,696	-11,213
Amortization of goodwill	–	**0**	0	0	0	0	0	-1,845	0
Depreciation[2]	–	**0**	0	0	0	-1,031	-1,085	-768	-323
Operating result before write-off »IPR&D«[3]	>200%	**-31,667**	-8,359	-11,515	-14,713	-29,040	-31,558	-22,782	-7,982
Result before income tax	>200%	**-31,345**	-7,606	-12,044	-12,665	-28,333	-30,231	-104,583	-6,905
Net result from continued operations	>200%	**-29,876**	-6,891	-12,045	-12,666	-31,060	-38,870	-110,490	-9,264
Write-off »IPR&D«[3]	–	**0**	0	0	0	0	0	-86,543	0
Net loss per share before write-off »IPR&D«[3]	>200%	**-0.95**	-0.31	-0.65	-0.90	-2.53	-3.47	-2.18	-1.10
Net loss per share adjusted for write-off »IPR&D«[3]	>200%	**-0.95**	-0.31	-0.65	-0.90	-2.53	-3.47	-10.04	-1.10
Weighted average number of shares	41%	**31,541,103**	22,410,901	18,560,027	13,996,440	11,206,205	11,204,990	11,003,245	8,417,423
Personnel expenses	25%	**-14,783**	-11,801	-9,931	-8,427	-10,973	-11,245	-7,938	-4,089
Cash flow									
Cash flow from operating activities	>200%	**-34,037**	-2,553	-10,437	-12,096	-26,544	-38,635	-22,015	-6,560
Cash flow from investing activities	-165%	**-1,296**	1,996	-413	4,785	-12	5,296	9,031	-21,494
Cash flow from financing activities	90%	**29,076**	15,311	61	34,341	267	312	930	110,807
Balance sheet data									
Cash and cash equivalents	-11%	**46,511**	52,498	37,625	48,460	21,444	47,762	86,843	115,226
Balance sheet total	-7%	**114,929**	124,136	57,062	72,894	38,367	67,079	108,383	127,790
Non-current liabilities	66%	**2,100**	1,266	312	1,880	285	2,993	2,402	1,362
Sharesholders' equity	-5%	**103,093**	108,512	51,777	61,712	29,220	59,435	100,406	118,793
Equity ratio	3%	**90%**	87%	91%	85%	76%	89%	93%	93%
Employees as at Dec. 31	**1%**	**172**	**171**	**114**	**114**	**121**	**182**	**158**	**88**
MediGene share									
Shares outstanding as at Dec. 31	18%	**33,946,481**	28,653,630	18,766,172	18,522,684	11,206,205	11,206,205	11,198,637	10,106,722
Share price (closing price, XETRA)	-23%	**5.35**	6.97	8.36	8.50	5.90	4.00	21.20	73.50
Dividend in €	–	**0**	0	0	0	0	0	0	0

[1] Acquisition and consolidation of MediGene, Inc. from March 1, 2001
[2] Due to the first-time adoption of International Financial Reporting Standards (IFRS) as of 2004, depreciation is included in R&D expenses, business development and general administration
[3] IPR&D = In Process Research and Development
[4] According to IFRS
[5] According to US-GAAP

Financial calendar

March 13
Annual Report 2007
Press conference and analysts conference call

May 9
3-months report
Analysts conference call

July 16
Annual shareholder's meeting

August 1
6-months report
Analysts conference call

November 7
9-months report
Analysts conference call

Trademarks

Eligard®
is a trademark of QLT USA, Inc.

EndoTAG™
is a trademark of MediGene AG

EsoDex®
is a trademark of MediGene Ltd.

HiDex™
is a trademark of MediGene Ltd.

MediGene™
is a trademark of MediGene AG

Oracea®
is a trademark of CollaGenex Pharmaceuticals, Inc.

Polyphenon® E
is a registered trademark of Mitsui Norin Co., Ltd.

RhuDex®
is a registered trademark of MediGene Ltd.

Veregen™
is a trademark of MediGene AG

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unique
transparent
active in biotech

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