MediGene

Annual Report 2008 | We develop biopharmaceutical products

Vol. 14
Munich / Oxford / San Diego

MAIN TOPIC

Breakthrough in clinical development

Cancer drug EndoTAG™-1 achieves highly positive results in phase II study. MediGene seeks a potent partner for the further development of this attractive drug candidate. **Page 8**

STRATEGY

Promising business orientation

Focus on cancer and autoimmune diseases reduces costs and permits expansion of the EndoTAG™ program. **Page 10**

PORTFOLIO

Strong on the market and in research

Marketed products generate increasing sales revenue. Simultaneously, MediGene is working on tomorrow's drugs. **Page 14**

OTHER TOPICS

Ups & downs

What else was important for MediGene: RhuDex™, patents, finances, the share. **Page 12**

COMPANY PERFORMANCE

Results delivered. Course set.

The still emerging biotech industry often thrives on hypotheses and expectations that have to be proven true. In 2008, MediGene delivered clinical study results that support the hope for a new cancer therapy with convincing clinical data. This positions MediGene well, both scientifically and strategically. **Page 8**

INTERVIEW

»Products, pipeline, and people make MediGene stand out.«

Dr Peter Heinrich, Chief Executive Officer of MediGene AG, talks about MediGene's strengths, strategic decisions, and the ups and downs during the 2008 financial year. **Page 4**

SOUND FINANCES

Finances – crisis-proof for 2009

Drug development is expensive, risky, and takes a long time. Sound corporate financing is therefore sought after. In 2008, MediGene significantly reduced its cash burn rate compared to the preceding year and secured flexible access to additional 25 million €. **Page 13**

unique
transparent
active in biotech

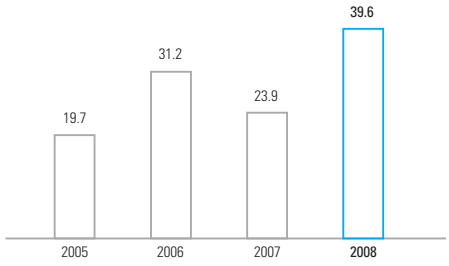
Key figures

of MediGene AG

In T€	2008	2007	Change
Income Statement			
Product sales	**33,507**	22,058	52%
Other operating income	**6,099**	1,819	>200%
Total revenue	**39,606**	23,877	66%
Cost of sales	**-26,926**	-18,493	46%
Gross profit	**12,680**	5,384	136%
Selling and general administrative expenses	**-10,484**	-9,026	16%
Research and development expenses	**-27,465**	-28,025	-2%
Loss resulting from spin-off	**-6,431**	0	–
EBITDA	**-24,584**	-30,308	-19%
Operating result	**-31,700**	-31,667	0%
Result before income tax	**-33,146**	-31,345	6%
Net loss	**-30,790**	-29,876	3%
Net loss per share (unidiluted)	**-0.91**	-0.95	-4%
Weighted average number of shares	**34,008,289**	31,541,103	8%
Personnel expenses	**-16,059**	-14,783	9%
Cash flow			
Cash flow from operating activities	**-27,361**	-34,037	-20%
Cash flow from investing activities	**4,349**	-1,296	>-200%
Cash flow from financing activities	**1,734**	29,076	-94%
Balance sheet data			
Cash and cash equivalents	**25,101**	46,511	-46%
Balance sheet total	**80,746**	114,929	-30%
Current liabilities	**15,456**	9,736	59%
Non-current liabilities	**384**	2,100	-82%
Sharesholders' equity	**64,906**	103,093	-37%
Equity ratio	**80%**	90%	-11%
Employees as at Dec. 31	**133**	172	-23%
MediGene share			
Total number of shares outstanding as at Dec. 31	**34,028,561**	33,946,481	0%
Share price (closing price, XETRA)	**4.30**	5.35	-20%
Dividend in €	**0**	0	–

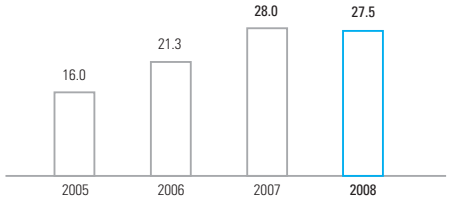
Total revenues

In million €



Research & development expenses

In million €



Broad pipeline of marketed products and promising clinical drug candidates

Produkt	Indication	Clinical phase I	Clinical phase II	Clinical phase III	Approval	Marketed	Peak sales potential[1] (in million €)
Eligard® [2] see page 15	Prostate cancer						>100[3]
Veregen® see page 15	Genital warts						>100[4]
	Actinic keratosis[5]						>100
EndoTAG™-1 see page 16	Pancreatic cancer						>200
	Breast cancer						>1,000
	Additional solid tumors						>400
RhuDex™ see page 16	Rheumatoid arthritis						>1,000
oHSV see page 17	Glioblastoma						>150
Chance of reaching the market[6]		10–30 %	30–60 %	60–80 %	80–90 %		

[1] Per year, peak sales. MediGene will receive royalities 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 Laboratories, Inc.).
[3] Marketing partnership with Astellas Pharma Ltd.
[4] Marketing partnership with Nycomed, Inc. for the USA.
[5] Precursors of a specific kind of skin cancer.
[6] Industrial average, source: Ernst & Young, 2009.

We develop innovative drugs for serious diseases. Patients, shareholders, and employees should benefit sustainably from these innovations.

MediGene is the first German biotech company with drugs on the market distributed by partner companies. High-potential products are currently in the clinical development stage. Moreover, MediGene owns promising technology platforms.

Content

Financial information
The financial report is available separately.

»Products, pipeline, and people make MediGene stand out.«

An interview with Dr Peter Heinrich, Chief Executive Officer of MediGene AG

Dr Heinrich, you have chosen an unorthodox format for your annual report. Why so?
Dr Peter Heinrich: MediGene's 2008 was characterized to an extreme extent by results, facts, and news. Therefore, we think that a newspaper format will be especially suited to communicating our news. We always like taking new paths, not only in research & development.

What was MediGene's most important news in 2008?
Dr Peter Heinrich: We achieved excellent clinical results with our cancer drug EndoTAG™-1 in the indication pancreatic cancer which is extremely difficult. EndoTAG™1 has tremendous medical and commercial potential. The data we delivered in an extensive phase II study will provide a very good basis for the planned development partnership. This is major progress in our company's development, resting upon tangible results. It has also changed MediGene's strategy.

You are referring to your focusing?
Dr Peter Heinrich: Yes, the positive EndoTAG™ data encouraged us to discontinue some of our other projects and to fully focus on cancer and autoimmune diseases. This enables us to concentrate our resources and cut future costs significantly. Nevertheless, we have several different products under development aside from the drugs that are already on the market. This means we are not dependant on the success of one individual project, not even EndoTAG™.

How about your plans regarding your own sales force?
Dr Peter Heinrich: These plans are still a part of our strategy. However, our planned sales force will also center upon cancer drugs. Originally, we were planning to start commercialization of dermatological products. As a result of our focusing, however, we are not going to start our own sales activities until we have oncological products ready for the market. Of course, EndoTAG™-1 is a highly interesting candidate in this sector.

»This is major progress in our company's development, resting upon tangible results.«

Apart from the good news, do you also have any negative developments in 2008 to report?
Dr Peter Heinrich: There was a tragic incident during the development of the rheumatism drug RhuDex™. A volunteer died while participating in a clinical trial. We all were of course deeply shocked. However, all scientific findings so far indicate that RhuDex™ was not the cause of this tragic incident. Nevertheless, we immediately halted the study, and are now conducting additional laboratory tests in order to reliably rule out any correlation. I am optimistic that we will be able to continue the clinical development of RhuDex™ in 2009, provided that the authorities agree.

EBITDA
EBITDA stands for: earnings before interest, taxes, depreciation of fixed assets, and amortization of intangible assets. Thus, EBITDA is a ratio which roughly relates to cash flow.

How satisfied are you with the MediGene share price?
Dr Peter Heinrich: Our share has performed much better than, for instance, the TecDAX share index which lost 48%. Yet, we also had to accept a decline of 20% due to setbacks in the capital markets worldwide. Of course, I am not happy about this. We will make every effort to develop our company in order to provide the basis for a positive share price performance. We also hope that the capital markets will recover soon. MediGene's admittance into the TecDAX selection index in early 2009 piqued investors' interest.

»We are not dependant on the success of one individual project.«

What will this development look like? What are your main objectives for 2009?
Dr Peter Heinrich: One key success will be the conclusion of a partnership for EndoTAG™-1. We are planning to continue development of this product in cooperation with a potent partner from the pharmaceutical industry, for several types of cancer and later take over commercialization in parts. We will significantly benefit from such a partnership in terms of finances, and we will be able to extend the possibilities for development of this interesting drug candidate considerably. Moreover, we will complete the phase II clinical study with EndoTAG™-1 for the treatment of breast cancer by the end of 2009. We hope that we will be able to resume clinical development of RhuDex™ and expect further progress in our research and development programs.

In 2008, MediGene's total revenue increased by 66%, and the EBITDA loss decreased by 19%. What is your financial forecast for 2009?
Dr Peter Heinrich: In any case, we will further increase revenue and reduce loss in 2009. We will provide a more precise forecast once the planned EndoTAG™ partnership has been concluded.

Why do you regard MediGene as an attractive investment?
Dr Peter Heinrich: Because of our »three Ps.« Products – MediGene is the first German biotech company that generates revenue from the commercialization of drugs. Pipeline – MediGene has several drugs in development, and EndoTAG™-1 is a product candidate with tremendous market potential. People – our employees are excellently qualified to achieve our ambitious objectives. A fourth »P« for Partnership should provide another plus in 2009. I look forward to 2009 and express my sincere thanks to our shareholders for the confidence they have placed in our company.

Thank you very much for this interview.

Management

Dr Frank Mathias (left)
Chief Operating Officer

Since April 2008, Dr Frank Mathias has been Chief Operating Officer of MediGene AG. Dr Mathias, previously the General Manager of Amgen Germany, possesses around 20 years of experience in drug marketing. Dr Mathias holds a PhD in pharmacy and 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 managed the Anti-Infectives Marketing Department at Hoechst Pharma in Frankfurt before assuming the Head of Marketing position at Servier Deutschland GmbH in Munich, taking over as General Manager in 1996. In 2002, he joined Amgen GmbH, Munich, as Head of Marketing. He then served as the company's General Manager from 2003–2007.

Dr Thomas Klaue (2nd from left)
Chief Financial Officer

Dr Klaue has been Chief Financial Officer at MediGene AG since June 2007. 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 more than 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 cooperation in the U.S., Europe, and Asia. Prior to that, he served as Vice President of M&A at Daimler-Chrysler 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 German federal organization in charge of privatizing the former East German economy where he gained four years of experience in controlling, reorganization, 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 and as a Harvard Business School graduate.

Dr Peter Heinrich (3rd from left)
Chief Executive Officer

Dr Peter Heinrich is a co-founder of MediGene and has been the company's Chief Executive Officer 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 Wacker biotechnology division. 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, an independent interest group within the German biotech industry. He is also involved as a Member of the Board of European Biopharmaceutical Enterprises (EBE), an interest group of European biopharmaceutical companies, as well as in other boards of industry and science.

Dr Axel Mescheder (right)
Chief Scientific Officer & Chief Development Officer

Axel Mescheder M.D. studied human medicine in Kiel and Cincinnati and received his license to practice medicine in 1986. Following his many years of medical and scientific work at the University Clinic of Kiel, the physician and medical specialist started his industrial career as Medical and Product Manager at Hoffmann – La Roche AG, Grenzach, Germany in 1993. In 1997, he joined Aventis Behring, (Marburg, King of Prussia), as the head of Intensive Care Europe, before taking over the position of Director Clinical Research & Development at Genetics Institute GmbH, (Munich, Boston), of Wyeth International Pharma, in 1999,. From 2001 to 2003, Dr Mescheder served as Medical Director of MorphoSys AG, Martinsried. In February 2003, he joined MediGene AG as Vice President Clinical Research & Development and was appointed Chief Scientific Officer & Chief Development Officer in May 2008.

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Positive results obtained with EndoTAG™-1 in phase II clinical study for the treatment of pancreatic cancer

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New on the market: Veregen®. Approval for Europe also expected.

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EndoTAG™-1 for the treatment of breast cancer: completion of phase II study expected at the end of 2009

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Strong in the market: increase in sales of the cancer drug Eligard®

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Jointly heading for success: the search for a partner for EndoTAG™-1

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MAIN TOPIC

Positive results obtained with EndoTAG™-1 in phase II clinical study for the treatment of pancreatic cancer

A lot depended on this crucial data. How would EndoTAG™-1 perform in a large-scale study and in direct comparison with traditional drugs? The outcome was impressive. Those patients treated with EndoTAG™-1 survived for a considerably longer period of time. This result encourages MediGene to continue the development of a drug candidate against severe types of cancer.

Pancreatic cancer is one of those types of tumors which are often diagnosed at a highly advanced stage. Due to the limited therapeutic options available, many patients have only a few months left after diagnosis. MediGene has now taken a major step towards the development of an improved therapy for this type of cancer which is extremely difficult to treat. A study showed an extended survival time of those patients treated with the drug candidate EndoTAG™-1 in addition to the standard medication.

Controlled phase II study in 200 patients

EndoTAG™-1 was assessed in a phase II study with 200 patients participating. Groups of patients received different doses of EndoTAG™-1 in combination with the standard drug gemcitabine. A control group was treated only with gemcitabine. The study assessed the safety, tolerability, and efficacy of the treatment. The patients participating suffered from inoperable, locally advanced, or metastasized pancreatic carcinoma. They were randomized to one of four groups. Three groups received EndoTAG™-1 at different dosages twice weekly for a period of seven weeks. In addition, gemcitabine was administered once a week. The control group was treated once a week with the standard drug gemcitabine only. In the second stage of the trial, with 102 patients included, there was an opportunity to continue treatment with EndoTAG™-1 provided that the tumor showed a response. The patients in the control group had the opportunity to receive further treatment with any other drug available.

Extended survival of patients treated with EndoTAG™-1

Combination treatment with EndoTAG™-1 and gemcitabine resulted in a dose-dependent increase of the median overall survival to up to 9.4 months, compared to 7.2 months in the control group. The 12-month survival rate of patients treated with EndoTAG™-1 doubled to up to 36%, compared to 17% in the control group. Those patients who had the option to receive repeated treatment cycles with EndoTAG™-1 showed an even significantly higher median overall survival of up to 13.6 months, and their 12-month survival rate even reached up to 52%. The drug safety data was also positive.

The study's principal investigator, Prof Dr Mathias Löhr from Karolinska Institutet, Stockholm and the German Cancer Research Center (DKFZ), Heidelberg, therefore sees high potential:

»In our opinion, this data represents the breakthrough of this technology.«

Dr Axel Mescheder, Chief Scientific Officer & Chief Development Officer at MediGene AG

»Due to its aggressive progression and the dissatisfactory therapeutic options, the treatment of pancreatic carcinoma represents a tremendous challenge in oncology. In the past, there has been only little progress in the therapy of this type of tumor. The data obtained in this study with EndoTAG™-1 suggests that, provided that further development is successful, EndoTAG™-1 has the potential to offer an enormous improvement in pancreatic cancer treatment.«

»In our opinion, this data represents the breakthrough of this technology,« states Dr Axel Mescheder, Chief Scientific Officer & Chief Development Officer at MediGene AG. »Now, we have convincing clinical results, showing which benefits treatment with EndoTAG™-1 may provide for the patients. This leaves us highly optimistic about the further development of this innovative drug candidate in the indication pancreatic cancer and for other types of tumors as well.«

Mode of action with a wide range of applications

The mode of action of EndoTAG™-1 may also be suited for the treatment of numerous different types of cancer. EndoTAG™-1 targets cells that all solid tumors display, i.e. the endothelial cells which line the newly developed tumor blood vessels. MediGene expects the active substance to attack the tumor blood vessels while simultaneously suppressing the growth of new vessels. This shall inhibit further tumor growth.

Pancreatic carcinoma

Pancreatic carcinoma: with more than 90,000 incidences annually in the USA, Japan, and the five major European countries, plus an approximately equal number of deaths, pancreatic carcinoma ranks fourth among the tumor-related causes of death. Less than 20% of patients are still operable at the time of diagnosis. The median survival of these patients is as low as 6–7 months. The one-year survival rate is approximately 19% and five-year survival drops to 4%. Therefore, the need for new therapeutic options is extremely high.

Median survival rate

The median survival rate in months indicates the period of time after which 50% of patients are still alive.

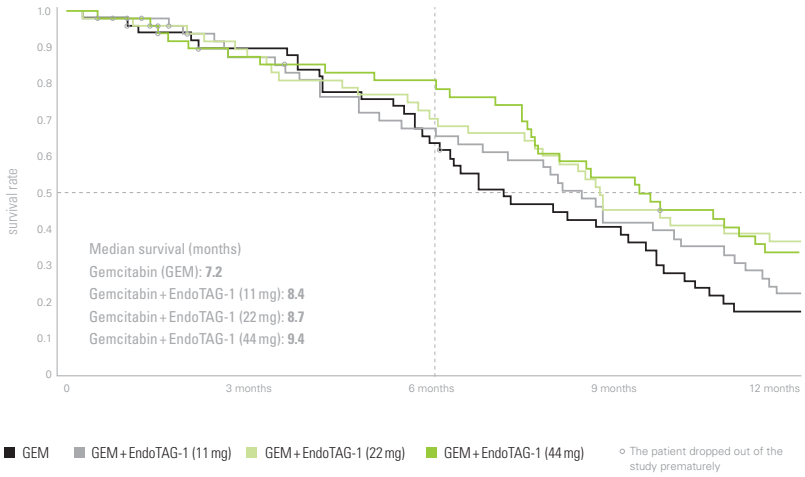
Solid tumors

Solid tumors affect individual organs, which distinguishes them from other diseases that attack an entire system, e.g. cancers of the blood (leukemia).

How does EndoTAG™-1 work?

MediGene's drug EndoTAG™-1
MediGene produces its EndoTAG™-1 on a test scale for experimental purposes and laboratory studies. Production volumes as required for clinical studies are manufactured by a partner company.

Significantly extended median survival time of patients treated with the combination of EndoTAG™-1 and gemcitabine*
In months



GEM GEM + EndoTAG-1 (11 mg) GEM + EndoTAG-1 (22 mg) GEM + EndoTAG-1 (44 mg) ○ The patient dropped out of the study prematurely

* total number of patients: 200

Those patients treated with EndoTAG™-1 in addition to the standard drug gemcitabine showed extended survival time. The maximum efficacy of EndoTAG™-1 was achieved by the medium and the maximum dosages. These results represent major research and development progress in the indication pancreatic carcinoma which is extremely difficult to treat.

Phase II results from breast cancer study expected from 2009 onward
Therefore, the opportunities of this therapy are being further explored. In 2007, MediGene initiated a phase II study with EndoTAG™-1 for the treatment of triple receptor-negative breast cancer. This study investigates the efficacy of EndoTAG™-1 in the treatment of this extremely aggressive type of cancer, for which currently no established therapy exists. 135 patients are to be enrolled in the study, which is to be conducted by more than 20 leading oncological centers in Europe and India. First data is to be reported at the end of 2009, and the final evaluation will be available in 2010.

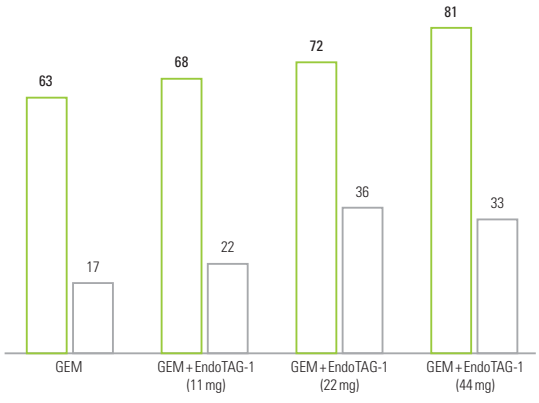
A partner with whom to go forward
The positive study results represent an important success, but also a major challenge and responsibility for the future. MediGene is seeking a potent partner from the pharmaceuticals industry in order to further investigate EndoTAG™-1 in a phase III study and, possibly, to extend the development to other indications. Therefore, the most important objective for 2009 is the conclusion of a development and marketing partnership for this drug candidate. In doing so, MediGene intends to simultaneously retain the marketing rights for defined geographic markets and engage in the further development of EndoTAG™-1.

»The data obtained in this study with EndoTAG™-1 suggests that, provided that further development is successful, EndoTAG™-1 has the potential to offer an enormous improvement in pancreatic cancer treatment.«

Triple receptor-negative breast cancer
With a share of 28% of all cancer incidences in Germany, breast cancer is the most common cancer in women. Every eighth or tenth woman gets breast cancer at some time in the course of her life. Malignant breast tumors that display neither estrogen/gestagen receptors nor HER-2 receptors on the cell surface are called »triple receptor-negative.« There are hardly any effective therapeutic options for patients with triple receptor-negative breast cancer, since the existing anti-hormonal therapies, or those treatments targeted at the ER-2 and estrogen receptor, cannot be applied.

Prof Dr Mathias Löhr, Professor of Gastroenterology and Hepatology at Karolinska Institutet, Stockholm and Head of Molecular Gastroenterology at the German Cancer Research Center (DKFZ), Heidelberg, principal investigator of the study with EndoTAG™-1 in pancreatic cancer

Significantly higher survival rate of patients treated with the combination of EndoTAG™-1 and gemcitamine after 6 and 12 months*
In %



6-months survival rate 12-months survival rate

* total number of patients: 200

STRATEGY

Focus on oncology and immunology

It came as a surprise when, in June 2008, MediGene announced a change in its business strategy. All future activities were to be focused on cancer and autoimmune diseases. This implied the discontinuation of several development projects, the preliminary end of all plans to establish a sales force, and a concentration in particular on EndoTAG™. An important reason for the new focusing of the company was the convincing study data obtained with the promising EndoTAG™-1 project.

»The excellent EndoTAG™-1 data we obtained in the phase II clinical has opened up completely new opportunities to us«, explained MediGene's CEO Dr Peter Heinrich in the company's press release from June 2, 2008, and elaborated: »We are now in a very strong position for negotiations with potential partners in such a way that we will be able to continue participating in both the tremendous potential of this cancer drug and the underlying technology. At the same time, we received interesting offers for our dermatological products which will enable us to focus on our core competences cancer and immune diseases.« From that date onward, the strategy was established: to retain EndoTAG™-1, i.e. not to sell the universal rights, but to reserve parts of the development and marketing rights and to expand the technology platform, to simultaneously sell the dermatological products rather than establishing a costly sales force, and to divest research and development projects which appear to be too expensive or too protracted.

»Our focusing enables us to drive our important development projects forward and, at the same time, to reduce our company's capital requirements.«

Dr Frank Mathias, Chief Operating Officer at MediGene AG

This plan was to change MediGene radically over the following months. The divestment of Oracea® was the first item in the catalog of measures. MediGene sold its rights to the dermatological drug to the pharmaceutical company Galderma Laboratories, Inc. against payment of 8 million €. This was a good bargain, since MediGene once acquired these licenses at a price of nearly 4 million €. There is also income of up to 24 million €, which Galderma will pay to MediGene once certain milestones are reached. For the skin drug Veregen®, MediGene is planning marketing partnerships in Europe. These should be concluded in 2009. In the USA, the drug is already available and has been actively marketed by MediGene's marketing partner Nycomed US, Inc. since the beginning of 2009.

In research and development, MediGene also made a selection. The most important step in this regard was the spin-off of the extensive mTCR program. In October 2008, MediGene and a group of private investors jointly founded the independent company Immunocore Ltd. for these preclinical projects with monoclonal T cell receptors (mTCR). MediGene holds a stake of nearly 40% in Immunocore Ltd. and is the largest shareholder of the new company. The further development of the mTCR technology will be fully financed by Immunocore Ltd. MediGene has no more financial obligations, but has retained the right of first refusal for active substances in defined indications for further development at a later date. MediGene is currently working on a similar solution for the oHSV program based on herpes simplex viruses. The company is planning to spin off the oHSV technology into an independent company or to divest the technology licenses in the 2009 financial year.

»As a result of the strategic focusing, we now have a clear-cut profile«, states Dr Frank Mathias, Chief Operating Officer of MediGene AG, and points to another key objective: »The cost reduction achieved by our focusing enables us to drive our important development projects forward and, at the same time, to reduce our company's capital requirements.«

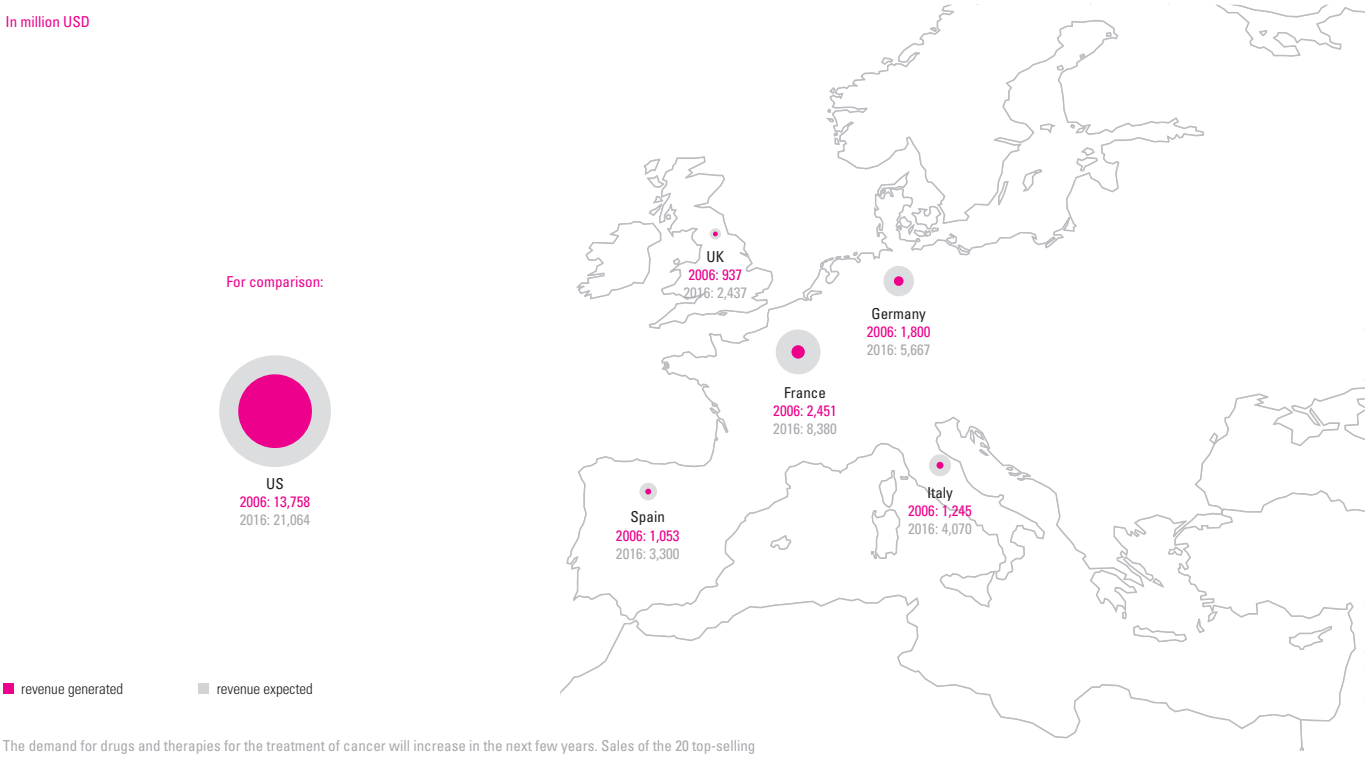
»The management's decision to focus on cancer and autoimmune diseases changes MediGene in a highly positive way. The company possesses excellent expertise in these areas and is now able to concentrate on its strong points.«

Prof Dr Ernst-Ludwig Winnacker, Chairman of the Supervisory Board at MediGene AG

Prof Dr Ernst-Ludwig Winnacker, Secretary General of the European Research Council, Brussels, and Chairman of the Supervisory Board at MediGene AG

Increasing demand: sales figures for the top 20 cancer drugs

In million USD

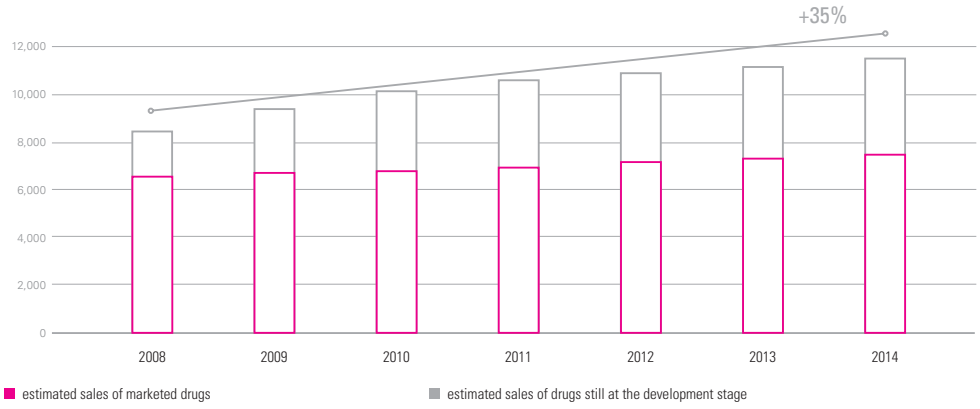


The demand for drugs and therapies for the treatment of cancer will increase in the next few years. Sales of the 20 top-selling cancer therapies in the world's largest markets USA, Europe, and Japan already totaled 24.5 billion USD in 2006. Forecasts predict that this figure will significantly increase in the next few years. More than twice the sales are expected by 2016, with an increase in market share of the European countries.

Reference: Datamonitor forecasts & MIDAS Sales Data, IMS Health, April 2007

Growing market: sales of drugs for the treatment of rheumatoid arthritis

In million USD



Rheumatoid arthritis is an autoimmune disease. Drugs for autoimmune diseases serve a large market. Sales of drugs for rheumatoid arthritis are continuously increasing. Experts estimate the worldwide sales at approximately 9 billion USD for 2008, and almost 12 billion USD in 2014. MediGene's drug candidate RhuDex™ is developed as a »disease-modifying antirheumatic drug (DMARD).« Provided that further development is successful, RhuDex™ could become the first orally available drug within this category. MediGene is currently researching other active substances for the treatment of autoimmune diseases.

Reference: Datamonitor forecasts & MIDAS Sales Data, IMS Health, 2005

OTHER TOPICS

Phase I study with RhuDex™ put on hold

After the progress made regarding formulation and clinical development of the drug candidate RhuDex™ for the treatment of rheumatoid arthritis, the death of a volunteer participating in a clinical trial represented a setback in this project. MediGene, however, does not expect RhuDex™ to be the cause of this tragic incident. Laboratory tests are currently being conducted to attain certainty.

The year had started so promisingly for RhuDex™, the drug candidate for the treatment of the common disease rheumatoid arthritis which attracted a lot of attention. Faster than expected, MediGene's scientists developed a new formulation for the active substance. It was possible to administer the drug in the convenient form of a tablet, which was a great alleviation for the patients. Soon afterwards, MediGene successfully completed a phase IIa clinical pilot trial of RhuDex™ with the liquid formulation. In addition to first indication of biological activity of RhuDex™, this placebo-controlled trial in 29 patients suffering from rheumatoid arthritis showed positive safety data and easy absorption after oral administration. Prior to that, RhuDex™ had already successfully undergone initial phase I clinical trials.

A phase I trial with the new formulation started in June 2008 and was expected to confirm the positive results already recorded. Therefore, the news that a volunteer had died of a myocardial infarction was a shock for the company and its shareholders. The autopsy of the patient, however, clearly proved a severe impairment of cardiac function in this patient that had developed for many years. The trial protocol of the phase I study in question provides for a meticulous examination of the volunteers' state of health, including a comprehensive analysis of the cardiac function both prior to and following administration of the trial drug. Minor infarctions may occur with no chest pain and may remain unrecognized by the affected persons and undiagnosed in subsequent clinical examinations. This autopsy report, as well as further scientific data, backs MediGene's assessment that the incident was probably not caused by RhuDex™. Nevertheless, MediGene immediately put the trial on hold and is now, in close cooperation with the authority in charge, conducting a series of scientific studies in order to rule out any detrimental effects of RhuDex™. The ongoing laboratory tests are examining any potential interaction between RhuDex™ and arteriosclerotic blood vessels and are a prerequisite for the continuation of the clinical development of RhuDex™. MediGene is confident that these laboratory studies can be successfully completed by mid-2009. The patients' safety is given top priority by MediGene.

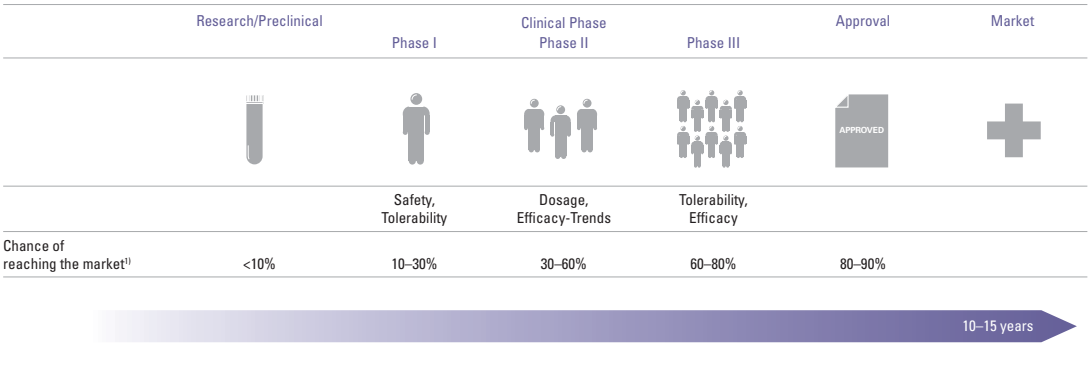
DRUG SAFETY

Studies in humans are of vital importance in the development of drugs. For even when preceding laboratory experiments allow an estimate of the potential effects of a drug, it is the human organism alone that finally shows the impact of a therapy. Therefore, a series of legally required studies in humans always follows laboratory and animal experiments.

Drug testing in humans is subject to stringent ethical and legal conditions. Before testing a new drug for the treatment of ill people, studies in healthy volunteers are usually conducted. A preliminary examination is conducted to ascertain the respective volunteer's state of health. Thereupon, not all candidates are admitted to participate in the trial. The proper selection of volunteers is important to ensure that the trial results are comparable. The volunteers' weight and age have to be within a tolerance range specified beforehand, and all volunteers receive the same food and beverages during the trial. For the entire duration of the trial, the participants are not allowed to consume any other pharmaceuticals or drugs. Their intake of alcohol and nicotine is also monitored.

During the trial, the volunteers receive their study medication either as inpatients or outpatients. They are examined during the trial at short intervals in order to find out what the active substance does inside the body (absorption, distribution, metabolism, excretion) and which processes are affected by the medication. In addition the tolerability of the treatment is monitored. A comparison of the active substance with placebo is also often part of the trial. In most cases, it is not reported until completion of the trial which volunteer received the medication and which volunteer received placebo. Follow-up examinations after completion of the trial are to ensure that the volunteers have not suffered any health impairment or damage.

Drug development stages



1) Industrial average, reference: Ernst & Young, 2009

The development of a drug takes 10–15 years on average

On average, it takes 10-15 years to develop a drug. The active compounds are first examined as drug candidates in preclinical trials. If trials of a new active ingredient are successful and it meets the strict regulatory criteria, the three phases of the clinical trial on humans can begin. In phase I, the effects of the drug on the body and how well it is tolerated are examined in a small number of mostly healthy volunteers (patients are required in the field of oncology). Phase II determines the optimal dose and includes first-time administration to patients. Phase III verifies the efficacy and tolerability for a large number of patients compared to the standard therapy. Finally, the drug must be approved by the respective national authorities before it can be launched onto the market.

OTHER TOPICS

Patent protection for innovations

Valuable things need to be well protected. This especially applies to scientific research. MediGene has broad and comprehensive patent protection for EndoTAG™. In 2008, the European Patent Office granted a new patent on the EndoTAG™ technology that covers certain cationic liposomal compositions containing cytotoxic agents. The patent portfolio hence protects the substance EndoTAG™-1 developed by MediGene as a drug for the treatment of various types of cancer and extends the protection to EndoTAG™ compositions with various active agents for the combat against cancer as well as other diseases. In addition, MediGene received a European patent on Veregen®. This patent protects the application of Veregen® in the treatment of skin and tumor diseases induced by papilloma viruses. Hence, Veregen® is now protected by two separate families of patents. MediGene's other products and drug candidates also enjoy broad patent protection.

STRATEGY

Sale of Oracea® after approval

Good news regarding Oracea® – in April 2008, the European Medicines Agency Committee for Medicinal Products for Human Use (CHMP) concluded the approval procedures for Oracea® for the treatment of rosacea by issuing a positive opinion. The formal confirmation by the European Commission and marketing authorization by the local authorities followed shortly afterwards. MediGene acquired the pan-European marketing rights to the drug from the US company CollaGenex Pharmaceuticals, Inc. in 2006. In the course of MediGene's strategic focusing, the positive news prompted the company to profitably divest the dermatology product. The European rights to Oracea® were given to the pharmaceutical company Galderma Laboratories, Inc. (p. 10).

MAIN TOPIC

Supply from the EndoTAG™ technology platform

The positive results from the pancreatic carcinoma study support EndoTAG™'s mechanism of action with substantiated data. Once the principle is known, many things are imaginable. MediGene's EndoTAG™ technology platform provides an opportunity to develop further therapeutic approaches using EndoTAG™ within and beyond oncology. MediGene's scientists are already working on new candidates. German federal and state research grants support their work.

66 %

increase in total revenue

OTHER TOPICS

Finances – crisis-proof for 2009

Drug development is expensive, risky, and takes a long time. It will take many years until the outcome of research work yields profit – if any. This makes it all the more important for companies such as MediGene to be on solid financial ground and to reduce costs, particularly with regard to the present capital market environment. MediGene already reduced the cash burn rate by 20% in the 2008 financial year compared to the previous year. This trend will continue in 2009, boosted by the sharper focus on specific projects and by operational cost-cutting measures. MediGene's broad business model is now paying off, since MediGene already has drugs on the market that generate sales revenue and profit margins. Total revenue in the year under review increased by 66% to approximately 40 million € compared to 24 million € in the previous year. It was generated mainly by Eligard® sales and proceeds from the sale of the European rights to Oracea®. On EBITDA basis, MediGene's result in the 2008 financial year significantly improved to -25 million € compared to the previous year (-30 million €).

Year-end cash and cash equivalents in 2008 were more than 25 million €. In addition, MediGene has used a new financial instrument, SEDA (Standby Equity Distribution Agreement), to secure access to another 25 million €.

20 %

decrease in cash burn rate

In December 2008, MediGene closed an agreement with the investment company YA Global Investments L.P., Jersey City, NJ, USA. Under the terms of the agreement, MediGene has the option to call a maximum of 25 million € cash in tranches over a period of up to 36 months, taking up YA Global's commitment to subscribe and pay for newly issued MediGene shares from authorized capital totaling up to 25 million €. It remains at the sole and exclusive discretion of MediGene, if and when this option will be exercised.

»This instrument is being applied in Germany for the first time and provides us with the financial flexibility required for our future operations, on one hand, and enables us to limit any dilution of the share price to a minimum on the other. At the same time, our solid financial basis strengthens our position for negotiations with potential partners.«

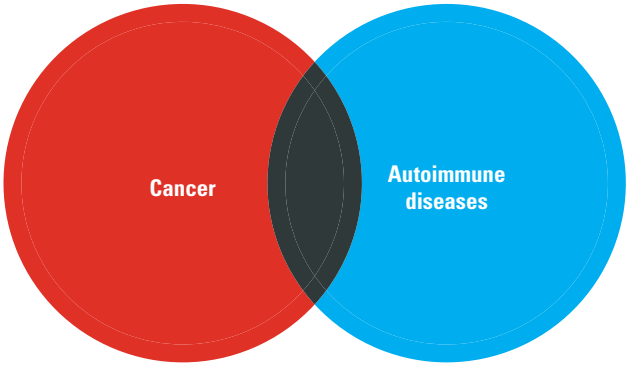
Dr Thomas Klaue, Chief Financial Officer of MediGene AG

EBIT and EBITDA

EBIT is a management ratio and denotes the operating profit of an enterprise. The abbreviation stands for: earnings before interest and taxes. EBITDA stands for: earnings before interest, taxes, depreciation of fixed assets, and amortization of intangible assets. Thus, EBITDA is a ratio which roughly relates to cash flow.

MediGene focuses on two therapeutic areas

Our products target two high-potential therapeutic areas that are closely linked. MediGene's portfolio focuses on overlaps in the areas of cancer and autoimmune diseases, and utilizes the evolving synergies for the research, development, and commercialization of drugs.



- **Two drugs on the market**
- **Broad drug pipeline**
- **Proprietary technology platforms**

Broad pipeline of marketed products and promising clinical drug candidates

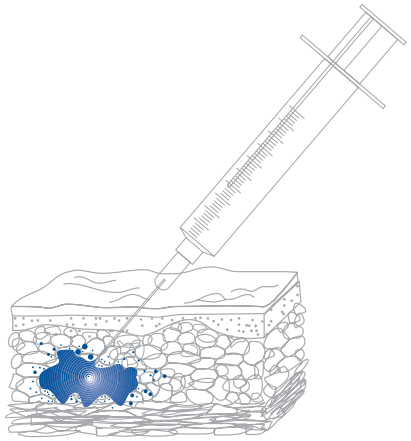
Produkt	Indication	Clinical phase I	Clinical phase II	Clinical phase III	Approval	Marketed	Peak sales potential[1] (in million €)
Eligard® [2] see page 15	Prostate cancer						>100[3]
Veregen® see page 15	Genital warts						>100[4]
	Actinic keratosis[5]						>100
EndoTAG™-1 see page 16	Pancreatic cancer						>200
	Breast cancer						>1,000
	Additional solid tumors						>400
RhuDex™ see page 16	Rheumatoid arthritis						>1,000
oHSV see page 17	Glioblastoma						>150
Chance of reaching the market[6]		10–30 %	30–60 %	60–80 %	80–90 %		

[1] Per year, peak sales. MediGene will receive royalities 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 Laboratories, Inc.).
[3] Marketing partnership with Astellas Pharma Ltd.
[4] Marketing partnership with Nycomed, Inc. for the USA.
[5] Precursors of a specific kind of skin cancer.
[6] Industrial average, source: Ernst & Young, 2009.

PORTFOLIO

Mainstay of sales: Eligard®

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 the testosterone-dependent 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.

MediGene acquired the European marketing rights to Eligard® from QLT USA, Inc., and successfully guided the drug through the approval procedures for Germany. The European market launch of Eligard® by MediGene's partner Astellas Pharma started in 2004. Meanwhile, the one-month, the three-month, and the six-month products are available in most European countries. MediGene's revenue from the sales of the drug is comprised of three elements: product sales to Astellas, royalties on Eligard® sales achieved by Astellas, and milestone payments MediGene receives from Astellas for the achievement of defined sales targets. MediGene purchases the product from QLT and makes license payments for Eligard® to QLT USA, Inc.

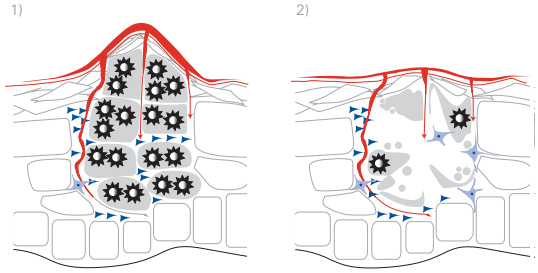
Outlook

Eligard® will remain an important MediGene sales mainstay in the coming years.

PORTFOLIO

Second drug on the market: Veregen®

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 made from green tea

Veregen®, originally developed under the name Polyphenon E® Ointment, gives MediGene a second drug on the market. Veregen® has been available in the U.S. for the treatment of external genital warts since December 2007. In the first quarter of 2009, MediGene's sales partner Nycomed US, Inc. began actively marketing the drug. The company took over MediGene's sales partner Bradley Pharmaceuticals, Inc. at the end of 2007. Veregen® makes MediGene the first German biopharmaceutical company with a drug on the American market. In Europe, the product is undergoing the approval process in Germany, Austria, and Spain. Veregen® is MediGene's first in-house clinical development.

Unlike most other drugs, Veregen® does not consist of one single active substance. In fact, it is a concentrate of catechines with a complex 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 14 countries were medicated with Veregen® at 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.

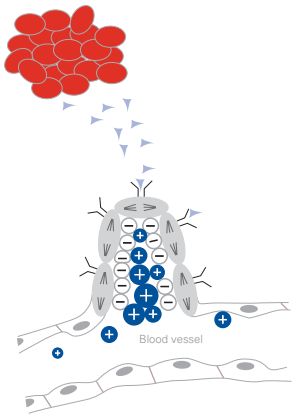
Outlook

A decision on the ongoing approval application in Germany, Spain, and Austria is expected in the first half of 2009. Once this process is concluded, the company can also apply for approval in other European countries on this basis. MediGene is planning to conclude sales partnerships for the marketing of Veregen® in Europe in 2009.

PORTFOLIO

Rising star: EndoTAG™-1 and EndoTAG™ technology

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

Attacking tumor blood vessels

EndoTAG™-1 is specifically aimed at those blood vessels that are needed for the growth of a tumor. The drug candidate is a novel combination of positively charged liposomes – minute globules of fat molecules – and the dissolved therapeutic substance paclitaxel. Paclitaxel prevents cell division and is one of the most effective substances in chemotherapy. EndoTAG™-1 attaches itself selectively to the negatively charged, dividing endothelial cells inside the newly developed tumor blood vessels. Inside blood vessels in healthy tissue there are only very few dividing endothelial cells. For this reason, EndoTAG™-1 specifically attacks tumor blood vessels and inhibits the development of new blood vessels at the same time. This process is intended to suppress further tumor growth. With its novel mode of action, EndoTAG™-1 adds an innovative variant to the successful anti-angiogenesis approach (inhibition of vascularization). 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 chemotherapy. In addition, the EndoTAG™-1 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. The European Commission identified EndoTAG™-1 as a drug for the treatment of rare diseases (Orphan Drug Designation) in the indication pancreatic cancer. This status ensures EU market exclusivity for the drug for a period of ten years following marketing authorization, in addition to the existing patent protection. In 2008, MediGene reported positive results for this drug candidate obtained in a controlled phase II clinical study in the indication pancreatic cancer. According to this, survival time and survival rates improved significantly for those patients treated with EndoTAG™-1 in combination with gemcitabine. In 2007, MediGene initiated a phase II study with the drug candidate EndoTAG™-1 for the treatment of triple receptor-negative breast cancer. First results are expected by the end of 2009.

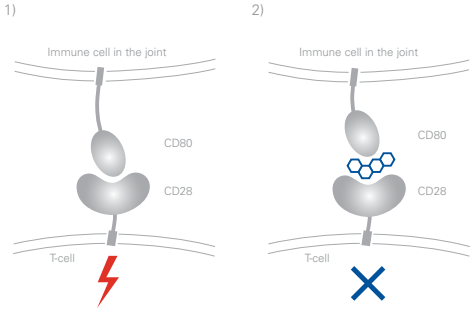
Outlook

In view of the positive results of the phase II study in the indication pancreatic cancer, MediGene expects to conclude a partnership in 2009 for the further development of this product. The final evaluation of the breast cancer trial with EndoTAG™-1 will be available in 2010.

PORTFOLIO

RhuDex™: a new approach to rheumatoid arthritis

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

RhuDex™ targets one of the most common diseases: rheumatoid arthritis. RhuDex™ is designed to block the disease-causing mechanism at a very early stage. T cell activation is pivotal in the onset of rheumatoid arthritis. It is triggered by interaction between specific proteins on immune cell surfaces. 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, preventing the interaction with CD28, thereby interrupting an important signaling pathway. This is intended to inhibit 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 an effective drug using this approach. That drug is administered by protracted infusions, whereas RhuDex™ is to be taken as a tablet. Since RhuDex™ is the first orally available drug candidate of this type, it would be excellently positioned to compete in this billion-euro market.

In June 2008, MediGene achieved all objectives in a phase IIa clinical trial with a working formulation of RhuDex™. Apart from positive safety data and its good adsorption after oral administration, the first indication of RhuDex™'s biological activity was observed. In addition, an easy-to-administer tablet form of the active ingredient was developed in 2008. In July 2008, MediGene put an ongoing phase I clinical study with the new formulation of RhuDex™ as a tablet on hold. During the study, a volunteer suffered an acute myocardial infarction and died. The autopsy clearly proved that impairment of cardiac function had developed in the patient over many years. In order to rule out any correlation between this incidence and the study medication, MediGene initiated additional preclinical testing in cooperation with the authorities. This should be concluded in mid-2009.

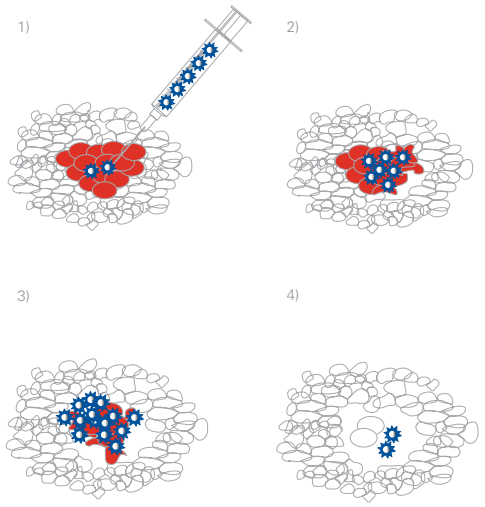
Outlook

From MediGene's point of view, a causal correlation between the death of the patient and the administration of the trial medication RhuDex™ is unlikely. If these laboratory tests successfully rule out any detrimental interactions between RhuDex™ and arteriosclerotic blood vessels, MediGene expects to continue clinical development of RhuDex™ in the second half of 2009.

PORTFOLIO

Innovative science: oncolytic herpes simplex viruses (oHSV)

Oncolysis by means of oHSV



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. The basis for this is 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 specific healthy cells, thereby destroying these cells. As a result of this genetic modification, the oHSVs 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, MediGene's herpes simplex viruses are able to replicate specifically in the tumor cells, destroying them (oncolysis) 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 option 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 also possible. Preliminary phase I clinical trials with cancer patients have already yielded positive results.

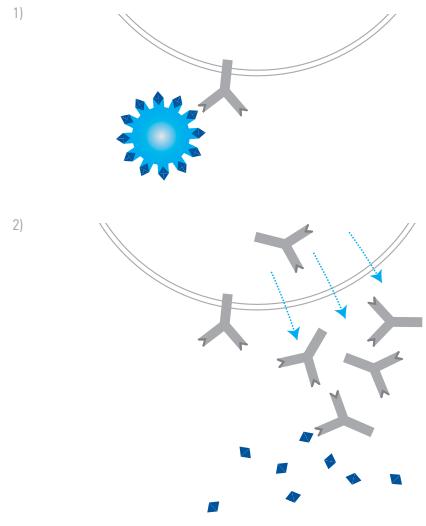
Outlook

In January 2009, on the occasion of the ASCO GI meeting, MediGene presented positive results obtained in a phase I/II trial in the indication advanced colorectal cancer metastatic to liver. In the course of its strategic focusing, MediGene is planning to spin off or to sell a license for this program.

PORTFOLIO

AAVLP – MediGene's novel in-house platform technology

Antigenes on the AAVLP surface trigger the production of specific antibodies.



AAVLP
Receptor
Antibody
Antigene

Adeno-associated virus-like particles (AAVLP)

Virus-like particles as vaccine carriers

The adeno-associated virus (AAV) is a virus not linked to any diseases. The viral protein envelope, the capsid, is suited for the production of virus-like particles (VLPs). AAVLPs incorporate short protein pieces into the AAV capsid protein as antigenes (B-cell epitopes). These are presented on the surface of the capsid. With the virus envelopes modified in this way, a highly specific antibody response to selected target molecules can be triggered. These antibodies are able to protect the body against potential diseases and may be effective as a therapeutic for an existing disease. This means that the AAVLPs act like a vaccine in the body. The idea of using adeno-associated viruses as a vaccine came into being in MediGene's laboratories and is based on the company's many years of expertise with these viruses, as well as cooperation with the Ludwig Maximilian University of Munich and the University of Cologne.

Antigenes
Compounds to which antibodies and certain receptors can specifically be attached. This can trigger an immune response. The point of the antigene recognized by the respective antibody is called the epitope.

AAVLPs may form antibodies even against the body's own, disease-causing proteins (breaking of immunological B cell tolerance). For this reason, this technology may be applied not only for the treatment of infectious diseases, but also for the production of vaccines in indications such as inflammatory and neurodegenerative diseases as well as cancer. MediGene is currently investigating the application of the AAVLP technology for the treatment of allergic asthma.

Immunoglobulins
immunoglobulins are proteins that the body forms in order to defend against foreign substances.

Another important research focus in cooperation with the German Cancer Research Center is the use of an AAV library for the systematic identification of appropriate vaccine candidates. This constitutes an attempt are to fish out those AAV capsids from a multitude of different types of AAV capsids that are specifically and efficiently bound to by therapeutically effective antibodies, in order to trigger an appropriate antibody response in the body with the thus identified AAV types. The critical advantage of this technology would lie in being able to directly use existing, therapeutically effective antibodies for vaccine production for the first time.

A very good safety profile is expected for AAVLP-based vaccines. These could represent an interesting supplement to classic vaccines.

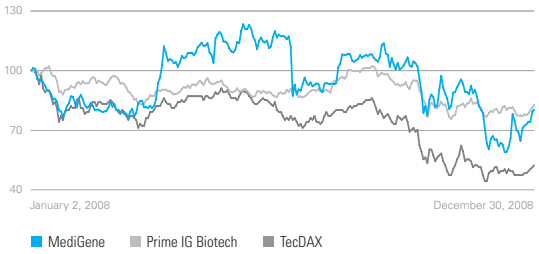
Outlook

MediGene holds all important patents on the AAVLP technology, and, therefore, has full freedom of action. For further development of this technology, MediGene is seeking to conclude partnerships.

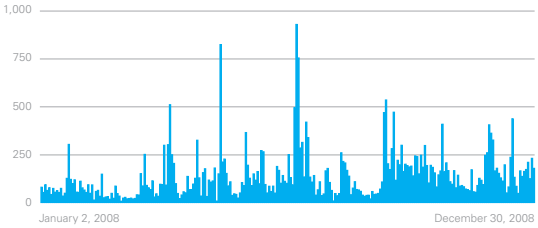
The share

The MediGene share sustained a significant loss in value in 2008, but performed much better than the reference index TecDAX did. Extensive investor relations activities and positive results obtained in the company's projects attracted increasing investor attention to the MediGene share.

Share price performance 2008
(Index opening price January 2, 2008, 5.36 € indexed to 100)



Market volume
In thousands



Share price performance

MediGene's opening share price in 2008 was 5.36 € and remained at this level with slight fluctuations until the end of the first quarter. Following the publication of interim results obtained in the clinical study with the cancer drug EndoTAG™-1 in March and in April, the share price rose significantly until it reached its yearly high of 6.62 € at the beginning of June 2008. A setback in the RhuDex™ project caused a sudden decline in the share price to 4.67 €. Exonerating scientific data regarding this incident as well as positive news about the drug projects Oracea® and EndoTAG™-1 resulted in a recovery of the share price which increased to 6.30 € in September. In the course of the international financial crisis, however, the MediGene share price slid downwards significantly, reaching the yearly low of 3.14 € at the beginning of December. After a recovery before the end of the year, the year-end closing price was 4.30 €. This equals a loss of 20% in 2008. In comparison with the TecDAX selection index which nearly halved in the course of the year, the MediGene share price performance was much more stable. Compared with the sector index Prime IG Biotechnology which closed with a loss for the year of 17%, the MediGene share performed nearly equally. At the beginning of 2009, the upside trend that had started in December continued. In February of 2009, MediGene was admitted to the TecDAX, Deutsche Börse's selection index for medium-sized technology companies. To be admitted to the TecDAX, companies have to fulfill extensive international transparency regulations, have above-average market capitalization (share price multiplied by the number of company shares), and a high stock exchange turnover (daily trading volume). The TecDAX listing raises MediGene's profile on the capital market. The company also believes that it will facilitate cooperation with national and international investors.

Broad analyst coverage

As 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 MediGene AG and its products and technologies. The number of investment banks which reported on the MediGene share in 2008 is equal to last year's number. In the course of the financial crisis, several investment banks reduced the portfolio of companies monitored. As a consequence of these reorganization measures, Vontobel Securities and Morgan Stanley discontinued coverage of the MediGene share and other securities, whereas in January 2009, the internationally renowned bank Piper Jaffrey in London initiated coverage.

Key figures per share

In €	2008	2007
52-week high	6.62	7.36
52-week low	3.14	3.94
Opening price	5.36	7.36
Year-end closing price	4.30	5.35
Mean share price	5.07	5.58
Weighted average number of shares	34,008,289	31,541,103
Average daily trading volume in shares	137,987	144,325
Average market capitalization in €	172	176
Total number of shares outstanding as per Dec. 31	34,028,541	33,946,481
Dividend per share	0.00	0.00
Cash flow per share from operating activities	-0.91	-0.95
Equity per share	1.90	3.04

Analysts' assessment of the MediGene share[1)]

	2009
Buy	10
Neutral	/
Sell	/

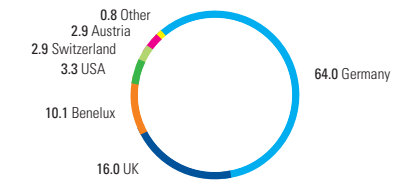
[1)] As per February 2009, based on all current analysts' reports

In 2008, MediGene presented the company at the following international investor conferences

JP Morgan Healthcare Conference	San Francisco
BIO CEO & Investor Conference	New York
Cowen & Company Healthcare Conference	Boston
Concord Stock Day	Frankfurt
Rodman Renshaw Healthcare Conference	Monaco
BioEquity Europe Conference	Amsterdam
Piper Jaffray Conference	London
Goldman Sachs Biotech Symposium	London
UBS Global Life Science Conference	New York
Sal.Oppenheim Healthcare Conference	Frankfurt
Rodman Renshaw Healthcare Conference	New York
Eigenkapitalforum	Frankfurt
Piper Jaffray Conference	New York

Shareholder structure by country[1]

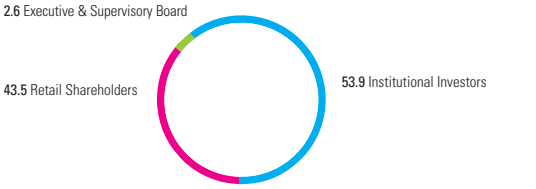
In %



[1] as per December 31, 2008

Shareholder structure by investor type[1]

In %



[1] as per December 31, 2008

Independent analyses are an important element in addressing potential investors successfully. Early in 2009, each of the ten active analysts issued a buy recommendation for the MediGene share.

Intense investor relations activities

In 2008, 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 analysts' conferences, we gave numerous interviews and had discussions with investors at home and abroad. Company presentations on the occasion of renowned investor conferences enhanced MediGene's presence on the capital market.

Award for annual report

In 2008, 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 for annual reports, MediGene won the much-coveted »Platinum Award« in the biotechnology category. MediGene has repeatedly received awards for its transparent reporting to its shareholders and the public.

Flexible access to additional cash

In December 2008, MediGene closed an equity funding agreement with the investment company YA Global Investments L.P. of Jersey City, NJ, USA. Under the terms of the agreement, MediGene has the option to call a maximum of 25 million € cash in tranches over a period of up to 36 months, taking up YA Global's commitment to subscribe and pay for newly issued MediGene shares from authorized capital totaling up to 25 million €. It remains at the sole and exclusive discretion of MediGene, if and when this option will be exercised during the term of the agreement. This agreement grants MediGene flexible access to substantial additional funds if required and places the company in a comfortable position for licensing negotiations.

Development of shareholder structure

During 2008, the shareholder structure of MediGene AG shifted slightly in favor of private investors. The portion of their holdings totaled 43.5% (2007 36.4%). The portion held by institutional investors decreased accordingly, from 60.1% in the preceding year to 53.9% to date. Directors' holdings amounted to 2.6% (2007: 2.7%). The shareholder structure by country remained nearly unchanged. As in the preceding year, most of the shares, i.e. 64.0%, are held by investors in Germany, followed by the UK with 16.0% of the shares (2007 59.7% and 20.2%, respectively).

In 2008, the following investment banks reported on MediGene

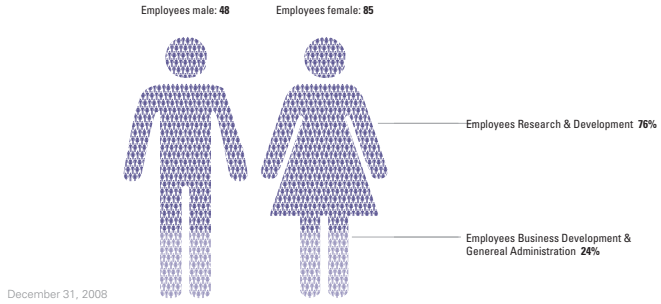
Vontobel Securities AG	Claudio Werder
Concord Investment Bank AG	Dr Roger Becker, Rüdiger Holzammer
DZ Bank	Dr Patrick Fuchs, Dr Elmar Kraus
Goldman Sachs International	Dr Stephen McGarry, Linden Townson
Landesbank Baden-Württemberg	Dr Hanns Frohnmeyer
Morgan Stanley Dean	Karl Bradshaw, Diana Na
Nomura Code Securities Ltd.	Samir Devani
Oppenheim Research GmbH	Dr Christian Peter
SNS Securities N.V.	Marcel Wijma
Viscardi AG	Robert Willis, Isabell Friedrichs, Dr Liming Ge
WestLB AG	Dr Cornelia Thomas, Oliver Kämmerer
Piper Jaffray Ltd. (since Jan. 2009)	Richard Parkes

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	TecDAX (since Feb. 9, 2009), Prime All Share, Prime IG Biotechnology
Trading floors	XETRA, Berlin, Bremen, Düsseldorf, Frankfurt, Hamburg, Hannover, München, Stuttgart
Designated Sponsors	Concord Effecten AG, WestLB AG

OTHER NEWS

Biotechnology – a sector for top visionaries



There is tough competition for talented workers and experts all around the world. Highly skilled employees are becoming the critical factor in the global race to develop innovations. In the biotechnology sector, employees are motivated to achieve their personal best in a highly stimulating working environment.

Innovation, expertise, and a plethora of ideas are crucial in the field of biotechnology. To ensure that biotech companies achieve their ambitious goals, they need outstanding teams of employees - MediGene has just such a workforce. Day in, day out, approximately 130 dedicated employees strive to develop innovative new drugs. The highly skilled, international staff is comprised of a wide range of professions. Physicians and biologists, pharmacists and chemists, engineers and technical assistants all drive the development of active ingredients, while management experts, finance specialists, marketing experts, and legal teams deal with the business side of project implementation.

MediGene has a balanced mixture of talented young specialists and experienced professionals well into their careers. They have outstanding qualifications, and many of them join MediGene after gaining experience at other companies. More than two thirds of the staff members have a college or university degree and about half have a doctorate.

Aside from specialist qualifications, MediGene looks for team players with communication skills who are willing to quickly adapt to new areas of work. MediGene encourages its employees to take part in continuing education and attend renowned specialist conventions and conferences in order to foster their expertise and personal skills.

To allow all staff to develop to their full potential, MediGene gives its employees room to act independently. This promotes creativity and innovation along with precision, efficiency, and productivity – all of which benefits the company. A lean company structure and short decision-making channels enable the MediGene team to act quickly and flexibly. Each individual's work is measured by the extent to which defined targets are achieved. The company rewards its staff for achieving these targets. All MediGene AG employees share in the company's success by means of variable salary components.

Financial calendar

March 31, 2009
2008 Annual Report
Financial press conference
and analysts' teleconference

May 15, 2009
First-quarter report
Analysts' teleconference

May 29, 2009
Annual shareholders' meeting

August 7, 2009
First-half report
Analysts' teleconference

November 13, 2009
Third-quarter report
Analysts' teleconference

Imprint

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Germany

Concept and design
Kirchhoff Consult AG, Hamburg,
Germany

Production
Peschke Druck, Munich,
Germany

MediGene

2008 FINANCIAL STATEMENTS

Five-year overview

of MediGene AG

In T€	Change 2008/2007	2008	2007	2006	2005	2004
Income statement						
Product sales	52%	**33,507**	22,058	30,549	19,555	12,501
Other operating income	>200%	**6,099**	1,819	675	127	637
Total revenue	66%	**39,606**	23,877	31,224	19,682	13,138
Cost of sales	46%	**-26,926**	-18,493	-10,669	-9,077	-5,930
Gross profit	136%	**12,680**	5,384	20,555	10,605	7,208
Selling and general administrative expenses	16%	**-10,484**	-9,026	-7,639	-6,123	-6,294
Research and development expenses	-2%	**-27,465**	-28,025	-21,275	-15,997	-15,627
Loss resulting from spin-off	–	**-6,431**	0	0	0	0
EBITDA	-19%	**-24,584**	-30,308	–*	–*	–*
Operating result	0%	**-31,700**	-31,667	-8,359	-11,515	-14,713
Result before income tax	6%	**-33,146**	-31,345	-7,606	-12,044	-12,665
Net loss	3%	**-30,790**	-29,876	-6,891	-12,045	-12,666
Net loss per share (undiluted)	-4%	**-0.91**	-0.95	-0.31	-0.65	-0.90
Weighted average number of shares	8%	**34,008,289**	31,541,103	22,410,901	18,560,027	13,996,440
Personnel expenses	9%	**-16,059**	-14,783	-11,801	-9,931	-8,427
Cash flow						
Cash flow from operating activities	-20%	**-27,361**	-34,037	-2,553	-10,437	-12,096
Cash flow from investing activities	>-200%	**4,349**	-1,296	1,996	-413	4,785
Cash flow from financing activities	-94%	**1,734**	29,076	15,311	61	34,341
Balance sheet data						
Cash and cash equivalents	-46%	**25,101**	46,511	52,498	37,625	48,460
Balance sheet total	-30%	**80,746**	114,929	124,136	57,062	72,894
Current liabilities	59%	**15,456**	9,736	14,358	4,973	9,302
Non-current liabilities	-82%	**384**	2,100	1,266	312	1,880
Sharesholders' equity	-37%	**64,906**	103,093	108,512	51,777	61,712
Equity ratio	-11%	**80%**	90%	87%	91%	85%
Employees as at Dec. 31	-23%	**133**	172	171	114	114
MediGene share						
Total number of shares outstanding as at Dec. 31	0%	**34,028,561**	33,946,481	28,653,630	18,766,172	18,522,684
Share price (closing price, XETRA)	-20%	**4.30**	5.35	6.97	8.36	8.50
Dividend in €	–	**0**	0	0	0	0

* not determined

Group Management's Discussion and Analysis

of MediGene AG, Planegg/Martinsried as per December 31, 2008

- **Total revenue: 39.6 million € (2007: 23.9 million €)**
- **Net loss: 30.8 million € (2007: 29.9 million €)**
- **EBITDA: -24.6 million € (2007: -30.3 million €)**
- **Average monthly net cash burn rate: 2.3 million € (2007: 2.8 million €)**
- **Cash and cash equivalents: 25.1 million € (2007: 46.5 million €)**

Business and general conditions

Company overview

MediGene AG, Planegg/Martinsried, Germany (hereinafter 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 therefore substantial commercial interest. Its research and development activities center upon cancer and autoimmune diseases.

Organizational and legal structure of the MediGene Group

MediGene AG was founded in 1994 in Planegg/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 Planegg/Martinsried, Germany. It 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). As of February 9, 2009, the MediGene share has been listed in the TecDAX, a German Stock Exchange index.

In addition to the parent company, MediGene AG in Planegg/Martinsried, Germany, 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 subsidiary MediGene Ltd. in turn holds 39.09% of the shares of the company Immunocore Ltd. (hereinafter referred to as »Immunocore«), Abingdon, Oxfordshire, United Kingdom. The Group is managed by the Executive Board of the parent company, MediGene AG. The management 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 regions USA and Europe.

Products and markets

MediGene has two drugs already being marketed: Eligard® for the treatment of prostate cancer and Polyphenon E® Ointment for the treatment of genital warts. Both drugs are marketed by partners. The Polyphenon E® Ointment is sold in the US by Nycomed US, Inc. (hereinafter referred to as »Nycomed«), Melville, New York, USA under the name Veregen®. Eligard® is marketed in Europe by Astellas Pharma Europe Ltd. (hereinafter referred to as »Astellas Pharma«), Staines, United Kingdom.

MediGene also has a broad research and development portfolio in the fields of oncology and immunology. In the area of oncology, EndoTAG™-1 and the oncolytic herpes simplex viruses (oHSV) are at different stages of clinical development. In the field of autoimmune diseases, the drug candidate RhuDex™ is undergoing clinical tests. MediGene products at the preclinical or research stage include vaccine candidates based on the AAVLP technology and the L1 project for the development of a therapeutic monoclonal antibody to treat ovarian cancer.

In addition, MediGene is pressing ahead in developing its proprietary innovative technology platforms for the development of active compounds, particularly the EndoTAG™ technology.

Competitors

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

State of the product portfolio and research and development activities

Eligard®

The drug Eligard®, used to treat hormone-dependent prostate cancer, is now successfully marketed in most European countries via the partner company Astellas Pharma in the form of one-month, three-month, and six-month depot formulations. The revenue generated with Eligard® rose significantly again in 2008, with the introduction of the six-month depot formulation in other European countries boosting sales since the middle of the year.

A contract for the marketing of Eligard® in Europe has been in place since January 2004 with the pharmaceutical group Astellas Pharma, a leading European pharmaceutical company in the field of urology. MediGene receives a share of the revenue generated by Eligard®. The contract's duration corresponds to the terms of the European patents up to 2021.

Veregen®

The ointment developed under the name Polyphenon E® has been approved in the US under the name Veregen® to treat genital warts and has been obtainable on the US market since December 2007. The process of assessing the market approval application submitted to the relevant authorities in Germany, Austria, and Spain in 2007 shall be concluded within a short time. Approval in these states should serve as a reference for approval procedures in other European countries.

A contract with the company Nycomed is in place for the marketing of Veregen® in the US. The duration of the contract corresponds to the patent term until at least 2017. As of February 2009, Nycomed is actively marketing and selling Veregen® in the US market.

Depending on the specific milestones achieved, MediGene receives successive single payments and furthermore has a share in Veregen® revenue. The milestone payments are linked to progress in the development, market authorization, and marketing of Polyphenon E® Ointment for the indications genital warts and actinic keratosis, and to certain revenue targets being achieved.

Oracea®

The dermatological drug Oracea® received approval for marketing in Europe in summer 2008. In the course of sharpening the company's focus on the fields of oncology and immunology, the marketing rights were subsequently sold back to Galderma Laboratories Inc. (hereinafter referred to as »Galderma«, formerly CollaGenex Pharmaceuticals, Inc.), Fort Worth, Texas, USA. In return, Galderma committed to make an immediate payment to MediGene AG of 8 million €. MediGene will receive successive payments of up to 24 million € in the form of milestone payments depending on the revenue generated by Galderma with Oracea®. There are no additional obligations for either party.

EndoTAG™ based therapeutics

The results of a phase II clinical trial with the drug candidate EndoTAG™-1 for the treatment of pancreatic cancer were presented in 2008. The controlled and randomized trial examined the safety and compatibility as well as the clinical efficacy of various dosages of EndoTAG™-1 in combination with Gemzar®, a cytostatic already approved to treat pancreatic cancer. The trial with 200 patients showed noticeably longer survival times for patients that had been treated with EndoTAG™-1 in combination with Gemcitabin than those who only received Gemcitabin. The survival times of the patients treated improved significantly with an increased dosage of EndoTAG™-1 and especially with repeated treatment using EndoTAG™-1. Positive results were also recorded for other clinical parameters such as survival with no progression as well as safety.

In mid-April 2007, MediGene initiated another 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. As per the end of 2008, 84 patients had been enrolled in the trial.

The drug candidate EndoTAG™-1 selectively attacks the blood vessels that supply tumors. EndoTAG™-1 is a positively charged lipid complex containing Paclitaxel. It accumulates around the negatively charged cells that line the newly formed tumor vessels. There, the active ingredient in EndoTAG™-1, the cytostatic drug Paclitaxel, is discharged in order to destroy the blood vessels and thus cut off the nutritive supply to the tissue of the tumor.

RhuDex™

RhuDex™ is an agent for the treatment of rheumatoid arthritis. It is an orally available CD80 antagonist blocking CD4+ T-cell activation. RhuDex™ works as an immunosuppressive drug with an anti-inflammatory effect. RhuDex™ successfully passed the preclinical development stages. Tolerability and safety of RhuDex™ were analyzed on the basis of a test formulation in a first clinical trial with healthy volunteers. In June 2008, a clinical phase IIa study with this working formulation achieved all study goals. In addition to positive safety and resorption data and good absorption of the drug with oral delivery, the study showed first indications of the biological activity of RhuDex™. At the same time, MediGene developed a pill form of the active ingredient with improved galenics.

A phase I clinical trial with the new formulation of the drug candidate RhuDex™ which was ongoing in parallel was discontinued in July 2008. A healthy volunteer in the trial suffered a heart attack a few days after receiving the drug. After undergoing therapy in the clinic, he collapsed several days later at home. The examinations showed that the volunteer died of an acute myocardial re-infarction as a consequence of coronary thrombosis. According to the investigation, the patient had suffered several small infarctions over the past years. From MediGene's point of view, this supports the estimation that an etiological connection between the volunteer's death and the intake of the trial drug RhuDex™ is unlikely. In cooperation with the British drug regulatory authority MHRA (Medicines and Healthcare Products Regulatory Agency), MediGene prepared a number of additional laboratory trials. The in-vitro studies currently being carried out examine the potentially dangerous interaction of RhuDex™ with arteriosclerotically altered vessels.

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

MediGene is currently studying the cancer cell-killing virus NV1020 in a phase I/II trial for the treatment of liver metastases in patients with advanced colorectal cancer. The trial was continued following the conclusion of the phase I clinical part of the trial with the most effective dosage level in a phase II component. MediGene presented results from these trials at the most important cancer conferences in Europe (ESMO) and the US (ASCO). These showed clear indications of efficacy among patients receiving the highest dosage level.

MediGene has discontinued the development of the viral strain G207. The company aims to partner or spin-off the oHSV program.

Preclinical development projects

MediGene's L1 project for the development of a therapeutic monoclonal antibody against ovarian cancer is currently in the preclinical and research stage. In summer 2008, the company acquired an exclusive, global license from the German Cancer Research Center (hereinafter referred to as »DKFZ«) in Heidelberg, Germany, for the use of anti-L1 antibodies in tumor therapy. MediGene signed a contract with the South Korean pharmaceutical manufacturer Celltrion, Inc. (hereinafter referred to as "Celltrion"), Incheon, South Korea, in December 2007 for the further development and commercialization of the anti-L1 antibody.

Technology platforms

MediGene is also pushing the development of its proprietary technology platform for the development of active compounds, including the EndoTAG™ technology. Research into EndoTAG™ technology for the development of further therapeutic molecules will be funded by public grants through 2009.

The mTCR technology, which is based on soluble, monoclonal T-cell receptors and which had been previously developed by the British subsidiary MediGene Ltd., was incorporated by MediGene in the newly founded company Immunocore, in which MediGene Ltd. holds a 39.09% share. The investment was financed by rights to the technology and additional liquid funds. Nearly all MediGene Ltd. employees of were taken over by the new company. With this spin-off MediGene continues its involvement in this technology without having to bear the future development expenses itself. A further preclinical project which is not based on the mTCR technology will remain at MediGene.

Another technology platform is based on AAV-like particles (AAVLP), which MediGene hopes to use for the development of prophylactic and therapeutic vaccines. This promising project is equipped with a large number of patents and will be funded using public grants.

General conditions

Regulatory and general economic conditions

The general regulatory conditions relevant for MediGene remained virtually unchanged in 2008. In contrast, the persistent cost pressure on healthcare providers may result in further legislation aimed at reducing the cost of drugs. This could also affect the pharmaceutical and biopharmaceutical sectors in Europe and, especially with the change in government, the US.

The estimates of the daily interest structure on the bond market published by the Deutsche Bundesbank (German Central Bank) show a decrease from 4.46% (December 31, 2007) to 3.28% (December 31, 2008) in the interest rate for the 10-year (hypothetical) zero bonds with no credit default risk for 2008.

The reference exchange rate of the Euro fell slightly from 1.4705 to 1.4175 USD within the 2008 reporting period. Against the British pound, on the other hand, it rose from 0.7351 to 0.9770 GBP (source: Dresdner Bank reference exchange rates).

Public research grants

Research into EndoTAG™ technology for the treatment of other diseases not involving tumors is receiving public grants totaling 1,9 million € over a two year period through 2009. In the 2008 financial year, a preclinical product candidate based on mTCR technology was supported financially by the Juvenile Diabetes Research Foundation (USA). Furthermore, the AAVLP technology is funded by the German Federal Ministry of Research and Technology (BMBF) until end of July 2009 with 0.6 million €.

Procurement

Procurement is focused on the authorized drugs Eligard®, Veregen®, and 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 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 USA, Inc. (hereinafter referred to as »QLT«), Fort Collins, Colorado, USA.

In December 2006, MediGene concluded a contract with Mitsui Norin Co., Ltd. (hereinafter referred to as »Mitsui Norin«), Tokyo, 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 Nycomed. The raw material, which consists of green tea leaves, is obtained from Chinese tea farms. Mitsui Norin is responsible for monitoring the Chinese raw material suppliers.

Procurement management for research and development supplies

MediGene is not restricted to any single raw material supplier for its research and development 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 that supply is sufficiently stable 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 the large-scale production and formulation of therapeutic substances, as well as when conducting pharmacological, toxicological, and clinical trials. Outsourcing these activities ensures that MediGene is able to respond to changes in its 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 for such projects – apart from quality and efficiency – are adherence to delivery dates, reliability, and flexibility.

Performance indicators

Financial performance indicators

The management of MediGene uses revenue, EBITDA, the gross revenue margin, the liquidity ratio, and the equity ratio as performance indicators for the commercial success of the Group's activities. The term EBITDA is used to describe the operating profit/loss before the deduction of interest, taxes, currency exchange gains and losses, depreciation of property, plant, and equipment, and amortization of intangible assets.

Performance indicators

		2008	2007
Total Revenue in %	Gross profit x 100 / Total revenue	32	23
EBITDA T€		-24,584	-30,308

Asset and finance indicators

		2008	2007
Liquidity cover ratio in %	Cash x 100 / Balance sheet total	31	40
Equity ratio in %	Equity x 100 / Balance sheet total	80	90

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 non-financial 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	30
USA	2	53

Pending patent applications

	Speciality Pharma	Biopharma
Germany/United Kingdom/Europe	2	33
USA	3	48
International (PCT)	6	69

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.

Income position

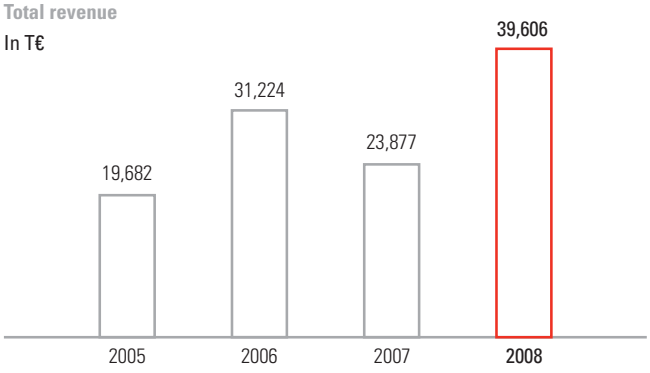
Total revenue

The company generated total revenue of 39,606 T€ (2007: 23,877 T€) in the reporting period. The revenue results primarily from the commercialization of Eligard® in Europe, and also from the sale of the European marketing rights of Oracea®. Furthermore, MediGene received public grants and payments from cooperation partners. Nearly all revenue was generated by MediGene AG and its subsidiary MediGene Ltd.

Income statement (abbreviated)

In T€	2008	2007	Change
Total revenue	**39,606**	**23,877**	**66%**
Cost of sales	**-26,926**	-18,493	46%
Gross profit	**12,680**	**5,384**	**136%**
General administrative and selling expenses	**-10,484**	-9,026	16%
Research and development expenses	**-27,465**	-28,025	-2%
Loss resulting from spin-off	**-6,431**	0	–
Operating result	**-31,700**	**-31,667**	**0%**
Result before income tax	**-33,146**	**-31,345**	**6%**
Taxes	**2,356**	1,469	60%
Net loss	**-30,790**	**-29,876**	**3%**

Total revenue



In the 2008 financial year, higher unit sales of the six-month formulation of Eligard® in particular led to an increase in product and licensing revenue in the second half year. MediGene also collected a milestone payment of 3 million € for reaching the revenue target of 75 million € with Eligard®. The revenue generated with Veregen® in the US market however was still low as the drug was not yet actively offered for sale. All in all, product revenue and royalties increased by 43% to 30,507 T€ (2007: 21,302 T€).

Other operating income totaled 6,099 T€ (2007: 1,819 T€), of which grants accounted for 914 T€ (2007: 623 T€), R&D payments from MediGene's partner Sanofi Pasteur Ltd., Toronto, Canada, for 623 T€ (2007: 1,057 €), and other income for 4,562 T€ (2007: 139 T€), in 2008 mainly for the return of the European marketing rights of Oracea®.

The revenue allocation is presented in the Notes to the consolidated financial statements C) item (27), p. 42.

Cost of sales

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 26,926 T€ (2007: 18,493 T€). These were comprised of the purchase of the products, a participation of QLT in the sales revenue, and a milestone payment that MediGene made to QLT in the amount of 3 million USD (2.1 million €) for reaching the revenue target of 100 million USD with Eligard®.

Gross profit

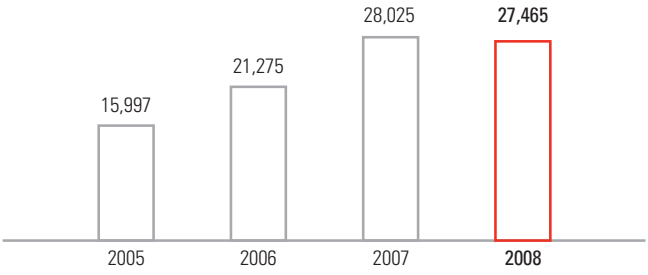
Gross profit totaled 12,680 T€ in 2008 (2007: 5,384 T€). The level of gross profit is determined by milestone payments and the ratio of revenue from product sales to license payments. In the 2008 financial year, the revenue from the return of Oracea® rights in particular positively influenced the gross margin. There is a dependency regarding the euro-US dollar exchange rate for the gross profits realized with the drugs Eligard® and Veregen®.

General administrative and selling expenses

Compared with the previous year, general administrative and selling expenses increased from 9,026 T€ (2007) to 10,484 T€ (2008). This amount consisted of 2,763 T€ in selling expenses (2007: 2,578 T€) and 7,721 T€ in general administrative expenses (2007: 6,448 T€). The increase is primarily driven by the higher expenses for marketing as well as the costs for the approval of shares already issued for stock exchange trading, and the higher expenses for employee stock options in 2008.

R&D expenses

In T€



Expenses for research & development

Total expenses for research and development (R&D) decreased by 2% to 27,465 T€ (2007: 28,025 T€). A large part of the expenses for research and development comprised the expenses for clinical trials with the drug candidate EndoTAG™-1 in the indications of pancreatic cancer and triple receptor negative breast cancer. Expenses were also attributable to the development of the drug candidate RhuDex™ and the mTCR technology up to its spin-off on September 30, 2008. The composition of R&D expenses can be found in the Notes to the consolidated financial statements C), item (31), p. 43.

EBITDA

MediGene AG uses the term EBITDA to describe the operating profit/loss before the deduction of interest, taxes, currency exchange gains and losses, depreciation of property, plant, and equipment, and amortization of intangible assets (earnings before interest, taxes, depreciation and amortization). As it gives a good indication of cash flow, using this indicator instead of the EBIT figure previously used, it should enable a comparison of the actual operating result before depreciation and amortization in the individual periods. MediGene reduced the loss in 2008 based on EBITDA to 25,584 T€ compared to 30,308 T€ in 2007.

EBITDA

In T€	2008	2007	Change
Operating result	**-31,700**	-31,667	0%
Depreciation	**1,173**	1,359	-14%
Impairment	**5,943**	0	–
Total	**-24,584**	**-30,308**	**-19%**

Depreciation
There was an overall increase in depreciation and amortization from 1,359 T€ (2007) to 7,116 T€ (2008). Regular depreciation and amortization refers to property, plant, and equipment and intangible assets, including patents and product licenses. In the course of the incorporation of Immunocore, intangible assets as well as other assets were transferred as investments in kind. An impairment according to IAS 36 on intangible assets was recognized as loss amounting to 5,943 T€ within this context. Additional book losses amounting to 488 T€ result from the transfer of the remaining assets.

Financial result
The financial result, mainly composed of exchange and interest losses as well as an impairment on financial assets, amounted to -1,190 T€ (2007: 322 T€) in the reporting period. The loss from a derivative financial instrument in accordance with IAS 39 concerning the product Eligard® decreased from the previous year despite the increase in orders expected from Astellas Pharma for a six-month period. This was due to the marginal appreciation of the US dollar against the euro. Currency exchange gains/losses arose from the translation from US dollar and British pound into euro. As per the December 31, 2008 closing date, MediGene wrote off the shares held in the Canadian company QLT, Inc., Vancouver, British Columbia, Canada, to their market value.

Taxes
Tax income in 2008 amounted to 2,356 T€ (2007: 1,469 T€), resulting from a so called R&D tax credit which the MediGene Ltd. subsidiary received in 2008 as well as the reversal of 2007 deferred taxes.

Net loss
Compared with the same period in the previous year, the MediGene Group marginally increased its net loss from 29,876 T€ to 30,790 T€.

Net loss per share
The net loss per share decreased from -0.95 € (weighted average number of shares: 31,541,103) in the previous year to -0.91 € (weighted average number of shares: 34,008,289) in the 2008 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.

Segments
The MediGene Group's activities are classified in the segments »Specialty Pharma« and »Biopharma« (cf. p. 62 f – »Definition of Segments«). The segment »Specialty Pharma« is comprised of the drugs Eligard® and Veregen® as well as the product candidate Oracea®. The »Biopharma« segment encompasses MediGene's activities concerning the product candidates EndoTAG™-1, RhuDex™, oHSV and, until the September 30, 2008, the preclinical drug candidates based on the mTCR technology. In addition, the technology platforms EndoTAG™ and mTCR (until September 30, 2008) are classified in this segment.

Financial position

Change in cash reserves
Considering changes in currency exchange rates, cash and cash equivalents showed a total net decrease of 21,410 T€ in the 2008 reporting year (2007: 5,987 T€. The closing balance of cash and cash equivalents in the reporting year was 25,101 T€ (2007: 46,511 T€). The liquidity ratio, calculated as the proportion of cash and cash equivalents in the balance sheet total, was 31% (2007: 40%) as per the closing date. There were no open credit lines.

Change in cash reserves

In T€	2008	2007	Change
Net cash			
used by operating activities	-27,361	-34,037	-20%
used by/from investing activities	4,349	-1,296	>-200%
from financing activities	1,734	29,076	-94%
Decrease in cash and cash equivalents	-21,278	-6,257	>200%
Cash and cash equivalents at beginning of period	46,511	52,498	-11%
Foreign currency translation	-132	270	-149%
Cash and cash equivalents at end of period	25,101	46,511	-46%

In the reporting period, the net cash outflow from ordinary activities decreased to 27,361 T€ (2007: 34,037 T€). The largest part of the cash outflow was the result of expenses for research and development, which are offset particularly by income from the

commercialization of Eligard®. The net cash outflow from ordinary activities was derived indirectly from the net loss for the year.

The net cash inflow from investing activities increased in 2008 to 4,349 T€. This amount primarily results from the inflow of 8 million € in return for the European Oracea® rights to Galderma, which is set against a net cash outflow of 3,293 T€ from the equity investment in Immunocore.

Investments in fixed assets and software amounted to 358 T€ in the reporting period (2007: 1,108 T€). They were mainly used for the purchase of laboratory equipment and information technology. The Group did not enter in so-called Capital Lease contracts. No further single investments exceeding 100 T€ accrued in the reporting period.

The net cash inflow from financing activities in the reporting period totaled 1,734 T€ (2007: 29,076 T€). The net cash inflow stems from the interest obtained and the exercise of options, less interest paid and the repayment of convertible bonds. In 2007, the major part of this large net cash inflow resulted from two capital increases, such was not realized in 2008.

Average monthly cash burn rate from operating activities

The consolidated cash flow statement for 2008 shows a net cash burn rate from operating activities of 27,361 T€ (2007: 34,037 T€) and an average monthly cash burn rate of 2,280 T€ (2007: 2,836 T€). 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 payments in the scope of partnerships and by research and development expenses, the amount of which depends on the status of projects.

Assets position

Development of assets and capital structure

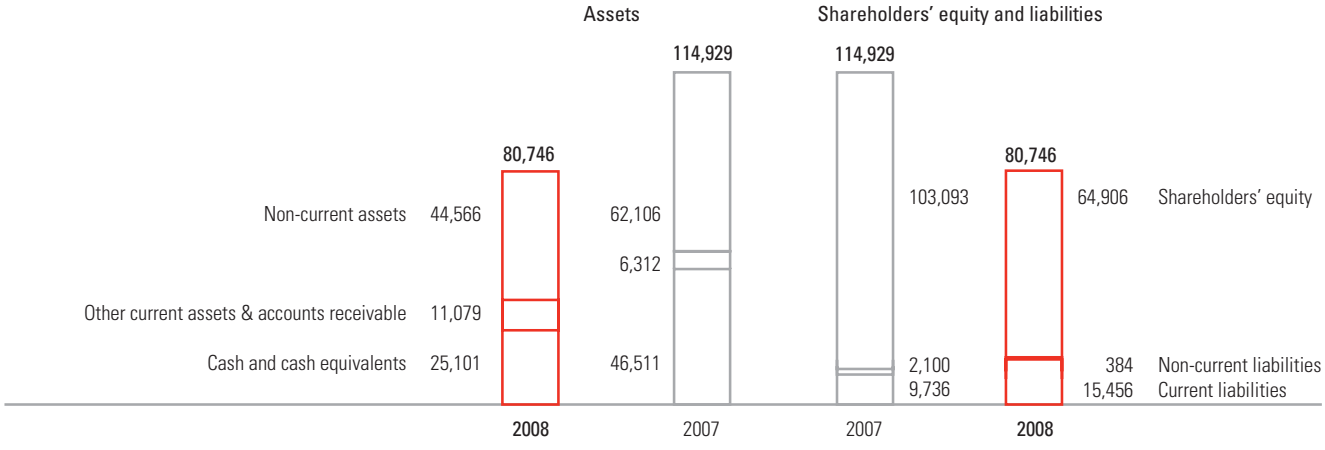
In T€	2008	2007	Change
Assets			
Property, plant & equipment and intangible assets	**29,662**	48,409	-39%
Goodwill	**11,090**	12,710	-13%
Other non-current assets	**545**	987	-45%
Investment in an associate	**3,269**	0	–
Cash and cash equivalents	**25,101**	46,511	-46%
Inventories and accounts receivable	**5,302**	925	>200%
Other current assets	**5,777**	5,387	7%
Total Assets	**80,746**	**114,929**	**-30%**
Liabilities			
Shareholders' equity	**64,906**	103,093	-37%
Non-current liabilities	**384**	2,100	-82%
Current liabilities	**15,456**	9,736	59%
Total liabilities and equity	**80,746**	**114,929**	**-30%**
Liquidity cover ratio in %	**31**	**40**	
Equity ratio in %	**80**	**90**	

Assets

Compared to the previous year, the balance sheet total decreased by 30% to 80,746 T€ (2007: 114,929 T€). The decrease in total assets predominantly corresponds to the decrease in cash funds, the impairment in the course of the spin-off of the mTCR technology and a fall in the value of intangible assets for exchange rate reasons.

Balance sheet structure

In T€



Total fixed assets decreased to 29,662 T€ (2007: 48,409 T€), of which property, plant, and equipment accounted for 1,151 T€ (2007: 1,802 T€). Intangible assets declined from 46,607 T€ to 28,511 T€. This decline is primarily attributable to the return of the Oracea® license and the spin-off of the mTCR technology. In addition, the regular amortization of licenses and the exchange rate-based impairment of intangible assets attributable to the subsidiary MediGene Ltd. contributed to the reduction in fixed assets. These assets carried in British pounds originate from the RhuDex™ project as well as other projects in the research stage.

The non-current financial assets primarily consist of 233,918 shares in the Canadian company QLT, Inc. MediGene did not sell any shares in 2008. As per the December 31, 2008 closing date, the market value of the shares quoted in US dollars decreased to 398 T€ (2007: 703 T€).

The Group held a share of 39.09% in the affiliated company Immunocore as per December 31, 2008. The book value of the shareholding acquired on September 30, 2008 amounted to 3,269 T€ as per the end of the reporting period.

Accounts receivable as per the end of the reporting period amounted to 3,117 T€ (2007: 357 T€). This sum basically consists of milestone payments made by Astellas Pharma amounting to 3 million € which were already booked but not yet collected at closing date.

Inventories totaled 2,185 T€ (2007: 568 T€) as per the closing date. These were comprised exclusively of Eligard®. The drug is not stockpiled, but resold to the sales partner Astellas Pharma shortly after it is procured.

Other current assets totaled 5,777 T€ (2007: 5,387 T€), of which 333 T€ (2007: 565 T€) were sales tax debts, 637 T€ (2007: 1,127 T€) were research grants and 3,750 T€ (2007: 2,373 T€) was deferred product and licensing revenue which had not yet been billed. The remaining amount includes the other current assets and rent deposits.

Liabilities and shareholders' equity

During the reporting period, shareholders' equity decreased primarily as a result of the net loss in 2008 and a change in other reserves to a total of 64,906 T€ (December 31, 2007: 103,093 T€). The reduction in shareholders' equity also led to a drop in the equity ratio to 80% (December 31, 2007: 90%).

Current and non-current liabilities rose by 34% and amounted to 15,840 T€ (2007: 11,836 T€) as per the closing date; this constitutes 20% of the balance sheet total. The current liabilities include trade payables totaling 10,496 T€ (2007: 2,242 T€). The increase of liabilities is mainly due to outstanding payments to QLT for the delivery of goods as well as to license fees and milestones amounting to 8,121 T€. Furthermore, there are unpaid bills which were issued for services used by MediGene.

Working capital, the difference between current assets and current liabilities, decreased from 43,087 T€ (2007) to 20,724 T€ (2008).

Capital increases

MediGene AG did not carry out any capital increases in 2008, but it did secure additional callable shareholders' equity of up to 25 million € through an agreement with the investment firm YA Global Investments L.P. (hereinafter referred to as »YA Global Investments«), Jersey City, New Jersey, USA. Within 36 months from closing of the contract, MediGene has the option to call for cash in tranches totaling 25 million € and in return to issue new shares from authorized capital to YA Global Investments. It is at MediGene's discretion whether and when to exercise this right during the term of the contract.

Employees

Number of Group employees

Due to the transfer of nearly all employees from the subsidiary MediGene Ltd. into the newly incorporated Immunocore, the average number of Group employees (FTE's) dropped to 150 in 2008 (2007: 159). Nevertheless, personnel expenses in the reporting period increased by 9% to 16,059 T€ (2007: 14,783 T€). Essentially, this is due to the appointment of a fourth member to the Executive Boad as of April 1, 2008 as well as to a bonus and compensation payment for a member of the Executive Board who prematurely left the company.

Employees by function (as of Dec. 31)

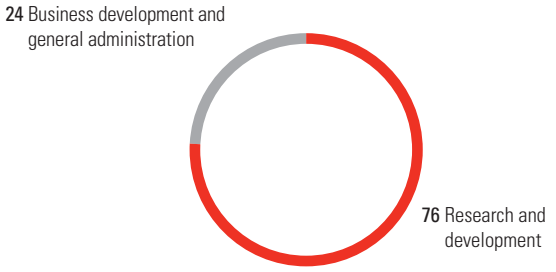
	2008	2007	Change
Business development and general administration	32	43	-26%
Research and development	101	129	-22%
Total	133	172	-23%

Employees by region (as of Dec. 31)

	2008	2007	Change
MediGene AG, Martinsried	128	126	2%
MediGene, Inc., San Diego	4	5	-20%
MediGene Ltd., Abingdon	1	41	-98%
Total	133	172	-23%

Employees by function[1)]

In %



[1)] as of Dec. 31, 2008

Compensation paid to the Executive Board and Supervisory Board

Executive Board compensation

The total compensation, including pension benefits of 91 T€ (2007: 64 T€), paid to the active members of the Executive Board in the last financial year was 1,569 T€ (2007: 1,131 T€). The increase is primarily attributable to the appointment of an additional member of the Executive Board for the newly formed »Marketing and Sales« department. In addition, bonus and compensation payments of 733 T€ were accrued in the reporting period for a member of the Executive Board who left the company prematurely. This brought the overall expenses for Executive Board compensation to 2,302 T€. The amount of compensation paid to the individual members of the Executive Board is listed in the Notes to the consolidated financial statements H), item (66), p. 65 f.

The Executive Board members' compensation is comprised of fixed and variable components, as well as performance incentives to increase the enterprise 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 long-term corporate success.

Supervisory Board compensation

Supervisory Board members' compensation totaled 233 T€ in 2008 (2007: 220 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 Vice Chairman are taken into consideration according to their scope. The compensation paid to the individual members of the Supervisory Board and information on subscription rights of members of the managerial bodies is provided in the Notes to the consolidated financial statements under H), item (67), p. 66 ff.

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 ten 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 allow for any forecasts regarding future trials.

Many pharmaceutical and 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 in 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. It is important for MediGene to consult only experienced and renowned service providers for the clinical trial management. Nevertheless, it is possible that a service provider does not manage a study correctly in all respects which may also cause delays in development.

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 asset, 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 to 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 asset, 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 recruiting and retaining appropriately skilled employees for these areas. 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 asset, 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 US In principle, there is a risk of the manufacturer failing to supply the product.

There exists a contract with Mitsui Norin for the production and supply of the active pharmaceutical ingredient for Veregen®. 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.

Supply bottlenecks can adversely affect MediGene's business operations and therefore its asset, 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 providers 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 and oncology, on which MediGene concentrates its activities. Given its commercial potential, this market is the focal point of numerous major pharmaceutical and specialized biotech companies' activities. 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 became the first to launch 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.

MediGene's products are currently marketed and sold by partner companies. There is no guarantee that these partners are able to market and sell the drugs to the extent that MediGene expects. The company only has a limited degree of influence on the marketing activities of the partner companies, which could lead to disadvantageous effects on the business activities and thus the asset, financial, and income position of MediGene.

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. These 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 marketing its products; these partners maintain their own sales and marketing organization. If the company fails to conclude cooperation agreements of this kind at favorable conditions, 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 asset, financial, and income position.

Risks of drug marketing by partner companies

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 expenses for research and development have 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, the progress being made by projects, the outcome of clinical trials, the conclusion of new licensing agreements and development partnerships, 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 achieving 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 meeting 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 inaccurate.

Financing risks

MediGene's present shareholders' equity and operating cash flow may possibly be insufficient to cover the expected investment expenses 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 many not always have sufficient funds available to it at acceptable conditions 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 asset, 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 cash 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 impairs the value of MediGene's assets denominated in US dollars. Since the US site is small, the impact of exchange rate fluctuations is relatively minor with regard to this subsidiary. The same applies to the British subsidiary MediGene Ltd., of which operations are transacted in British pounds. There is a significant foreign exchange risk due to an intercompany loan granted to MediGene Ltd. by MediGene AG.

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 the exchange rate.

The development and marketing agreement with Nycomed for Veregen® is handled in US dollars. The active pharmaceutical ingredients for this drug are purchased in US dollars. This means that the contractually agreed milestone payments and the margin resulting from product sales are subject to exchange rate fluctuations.

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, environmental protection, and occupational safety. These laws include provisions on the handling of exhaust emissions and the disposal of solid and liquid waste. Adher-

ence to these regulations 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 resulting costs could be highly detrimental to the company's asset, financial, and income position.

Patent risks and legal risks

Patent risks

MediGene's success also depends on its ability to acquire 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 patented 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., Osaka, Japan, and Wako Pure Chemical Industries, Ltd., Osaka, Japan. The patent pertains to 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/Wako) sued the partners MediGene and Astellas Pharma GmbH, Munich, Germany, before the Düsseldorf Regional Court for alleged patent infringement. In their lawsuit, they argued that the commercialization of MediGene's and Astellas Pharma's drug Eligard® infringed 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 the Düsseldorf Regional Court were invalid within the Federal Republic of Germany. Takeda and Wako have appealed against this judgment before the Federal Supreme Court (BGH), whose decision is expected in 2009. At the same time, the Düsseldorf 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 filed 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., New York, New York, USA, the US marketing partner of QLT USA, Inc., were sued on the grounds of patent infringement by Takeda Abbott Pharmaceutical Product, Inc., Lake Forest, Illinois, USA, 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 opposing party 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 that potential claims for compensation will be borne by the licenser itself.

In July 2008, following the death of a volunteer who participated in a study with the drug candidate RhuDex™, the Procurator Fiscal in Edinburgh, United Kingdom, routinely started investigations which are not yet completed. MediGene expects the investigation to be concluded within the first half of 2009. Additionally, it is possible that the family will file civil action. Considering the results of the investigation so far, the management assumes the likelihood of such a claim as unlikely.

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.

Statement regarding risk management according to section 315 (II) German Commercial Code (HGB)

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 pursues a comprehensive risk management system which is adapted flexibly to new situations and monitored continuously. Organizational safeguards 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. IT 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 department 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 directors and the Executive Board.

Portfolio strategy to reduce overall risk

MediGene's overall risk with regard to its ongoing existence and success is determined primarily by the individual risks arising in clinical development, product marketing, successfully concluding strategic partnerships with the pharmaceutical industry, 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. As some products have already been successfully authorized for the market and are consequently generating revenue from products and licenses, these risks are classified as not having the potential to endanger the company's ongoing existence.

Portfolio steering and evaluation

MediGene's project portfolio is steered actively and evaluated at regular intervals. The steering process includes drawing up 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 segment 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 and pharmaceutical experts 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 products 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 safeguarded with far-reaching international patents, pending or granted. In addition, cooperation with external scientific institutes, universities, and other companies provides 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, the progress being made by projects, the outcome 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 done and the methods used can be provided at any time. In the quality assurance field, MediGene has a host of standardized workflows at its disposal.

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, as well as a safety engineer and a project director for genetic research, all of whom are experienced employees trained specifically for their specialist tasks. MediGene receives 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. It enlists the help of external service providers to ensure that all accumulated waste materials are properly sorted 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 random inspections and tests carried out by the various authorities to date without any relevant objections.

Explanatory report by the Executive Board on the statements pursuant to section 289 (IV) and section 315 (IV) of the German Commercial Code (HGB)

The Executive Board has provided statements pursuant to section 289 (IV) of the German Commercial Code (HGB) and section 315 (IV) of the German Commercial Code (HGB) in the Management's discussion and analysis (MD&A) for MediGene AG and the Group MD&A for the 2008 financial year. It has explained these in accordance with section 120 (II) (2) and section 175 (II) (1) of the German Company Act (AktG) as follows:

No. 1: Composition of subscribed capital

The company's capital stock amounts to 34,028,561.00 € and is divided into 34,028,561 no-par value bearer shares with pro rata temporis share capital of 1.00 €. The shareholders of MediGene AG are entered in the share register. All shares guarantee the same rights. Every share guarantees a vote at the annual shareholders' meeting and the same profit share.

No. 2: Restrictions on voting rights or transfer of shares

As far as the Executive Board is aware, there are no restrictions on voting rights or restrictions pertaining to the transfer of shares.

No. 3: Investments in capital exceeding more than 10% of the voting rights

The company was not made aware of any direct or indirect investments in the share capital of MediGene AG that exceed ten of hundred voting rights.

No. 4: Shares that grant privileges of controlling power

The company did not issue 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

Employees holding a share in the capital of MediGene AG directly exercise their right of control and in accordance with the law and the Articles of Association. There are no voting right controls for an event in which employees have a share in the capital and do not directly exercise their right of control.

No. 6: Statutory provisions and stipulations in the Articles of Association on the appointment and dismissal of members of the Executive Board and amendments to the Articles of Association

The Executive Board of the company, in accordance with section 7 (I) of the Articles of Association, consists of one or more persons and is appointed, in accordance with section 84 (I) of the German Company 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 (III) of the German Company Act (AktG), the Supervisory Board is also responsible for the Executive Board's dismissal.

Pursuant to sections 179 and 133 of the German Company Act (AktG), the Articles of Association can be changed only by a resolution of the annual shareholders' 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 Association provide for a different capital majority. Section 18 of the company's Articles of Association stipulates that resolutions of the annual shareholders' 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, setting up authorized capital (section 202 (II) (2) and (3) of the German Company Act (AktG)) or contingent capital (section 193 (I) (1) and (2) of the German Company Act (AktG)), and issuing non-voting preferred shares (section 182 (I) (2) of the German Company Act (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 Association if these affect only the wording.

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

It is the Executive Board's own responsibility to for manage the company in accordance with section 76 (I) of the German Company Act (AktG) and to represent the company in and out of court in accordance with Section 78 (I) of the German Company Act (AktG).

Authorized capital

The Executive Board, as a result of the annual shareholders' meeting resolution of July 16, 2008, is authorized, with the consent of the Supervisory Board, to increase the share capital by up to 16,937,240.00 € (circa 49.87% of the share capital) with the one-time or repeated issue of up to 16,937,240 new (no-par value) bearer ordinary shares against contributions in cash or kind up to July 15, 2013 (authorized capital 2008). The authorization can be exercised in partial amounts. The Executive Board is authorized, with the consent of the Supervisory Board, to determine the further terms of the share's rights and the terms of share issuance.

Conditional capital

The company's share capital was increased conditionally through a number of contingent capital items on December 31, 2008 by up to 13,318,510.00 € overall, divided into up to 13,318,510 ordinary shares overall (circa 39.13% of the share capital).

In detail, the contingent capital items are: conditional capital I of up to 136,897.00 € (1997), conditional capital II of up to 106,429.00 € (1997), conditional capital III of up to 125.00 €, conditional capital IV of up to 13,770.00 €, conditional capital V of up to 652,329.00 € (2000 and 2001), conditional capital VI of up to 3,000.00 € (2000), conditional capital VIII of up to 3,000.00 € (2001), conditional capital X of up to 3,000.00 € (2002), conditional capital XI of up to 1,400.00 € (2003), conditional capital XII of up to 498,560.00 € (2003), conditional capital XVI of up to 300,000.00 € (2006), conditional capital XVIII of up to 1,600,000.00 € (2007), as well as conditional capital XIX of up to 10,000,000,00 € (2008).

The contingent capital items are in each case divided into the same amount of ordinary (no-par-value) shares.

The purpose of the contingent capital items is:

a) in the case of conditional capital I, II, V, XVI, and XVIII, exclusively to grant conversion rights to the holders of options for conversion or option rights which were issued within the scope of employee and management stock option programs by the company to members of its Executive Board, members of the management of affiliated companies at home and abroad, to employees of the company and to employees of affiliated companies;
b) in the case of conditional capital III exclusively to exploit the conversion rights stemming from the profit sharing bonds which were issued to Technologie-Beteiligungs-Gesellschaft mbH of the Deutsche Ausgleichsbank;
c) in the case of conditional capital IV exclusively to exploit the conversion rights stemming from contracts with IKB Nachrangkapital GmbH and Technologie-Beteiligungs-Gesellschaft mbH der Deutschen Ausgleichbank:
d) in the case of conditional capital VI, VIII, X, and XI, exclusively to grant shares to the holders of convertible bonds which were issued to the members of the Supervisory Board which were issued in accordance with the provisions of the annual shareholders' meeting resolutions of May 15, 2000, May 23, 2001, May 22, 2002, June 4, 2003;
e) in the case of conditional capital XIX, exclusively to grant new shares to the holders of conversion and option rights which are issued in accordance with the provisions of the annual shareholders' meeting resolution of July 16, 2008.

Notes on authorized and contingent capital

The previously illustrated authorizations of the Executive Board to issue new shares from authorized capital and the previously illustrated contingent capital items in connection with the associated resolution for issuing convertible or warrant-linked bonds shall put the Executive Board in a position to cover any arising need for capital and to take advantage of the attractive financing options depending on the state of the market. The ability to pay for the acquisition of stakes in enterprises or the acquisition of enterprises or enterprise parts in individual cases by issuing shares of the company to the vendor allows the company to expand without weighing on its cash position. The issue of stock options, which is secured through the contingent capital, is a component of the remuneration of employees and executive board members at German stock corporations.

Share repurchase

The Executive Board may, in the cases mentioned in section 71 (I) of the German Company Act (AktG), acquire its own shares in the company. The Executive Board is not currently authorized to repurchase its own shares pursuant to section 71 (I) No. 8 of the German Company Act (AktG). The company does not hold its own shares at the moment.

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

The contracts governing the appointment to the Executive Board of the Executive Board members Dr Peter Heinrich (beginning of term: December 1, 1996), Dr Thomas Klaue (beginning of term: June 15, 2007), Dr Frank Mathias (beginning of term: April 1, 2008), and Dr Axel Mescheder (beginning of term: May 19, 2008) provide for special termination rights in the event of a change of control, both for the company and for each of the Executive Board members Dr Peter Heinrich, Dr Thomas Klaue, Dr Frank Mathias, and Dr Axel Mescheder. The special termination rights are limited to one year starting from the time of the change in control.

The control in the sense of the contractual agreement is changed if more than 30% of the voting stock of the company or more than 50% of the voting rights present at the company's annual shareholders' meeting on average in the last three calendar years are acquired by a third party. The point in time at which the control is changed over is determined by the entry in the company's share register in accordance with section 67 (III) of the German Company Act (AktG).

The Executive Board members Dr Heinrich, Dr Klaue, Dr Mathias, and Dr Mescheder are each entitled to a special termination for the period of one year after the time of the change of control if this change results in an unreasonable shift in the previous duties and responsibilities of the Executive Board member (budget, number of employees and company bodies to be supervised), the place of employment is relocated more than 100 km from the Executive Board member's current place of residence without his approval, the Executive Board member is replaced, or the company informs the Executive Board member that his appointment will not be extended and denial of such extension is not based on a reason sufficient for extraordinaringly terminating the contract by breach of contract by the Executive Board member.

Any details beyond the above have been omitted.

No. 9: Compensation agreement in the event of a takeover bid with members of the Executive Board or employees

If the term of office of the Executive Board members Dr Peter Heinrich, Dr Thomas Klaue, Dr Frank Mathias, and Dr Axel Mescheder comes to an end as a result of the company exercising its special termination right referred to above, the respective Executive Board member 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.

In the event of a special termination by one of the Executive Board members Dr Peter Heinrich, Dr Thomas Klaue, Dr Frank Mathias, and Dr Axel Mescheder, the respective Executive Board member shall be entitled to receive a compensation payment in the amount of three times the gross monthly sum for every fully completed year of his service on the company's Executive Board. The gross monthly sum comprises one twelfth the gross salary and one twelfth the average annual bonus at the time of the termination. The lump-sum payment may not exceed the sum of 36 gross monthly salary payments.

The intended purpose of the compensation agreements made or to be made with the members of the Executive Board in the event of a takeover bid is to protect the member of the Executive Board and, in the event of a change of control, to maintain his or her independence.

Major events since the end of the period under review

MediGene listed in TecDAX

As of February 9, 2009, MediGene has been listed in the TecDAX, a German Stock Exchange Index. Listing criteria are market capitalization as well as the liquidity of the share.

Veregen® – Marketing in US started

On February 16, 2009, Nycomed started active marketing and selling of Veregen® in the USA.

Outlook and forecast

The projections refer to the 2009 and 2010 financial years.

General economic conditions

The general economic prospects deteriorated worldwide at the beginning of 2009. In its monthly report in December 2008, the Deutsche Bundesbank (German Central Bank) anticipates a significant decrease in real economic activity in 2009, but also a revival of the global economy in 2010. However, specific considerations of the pharmaceutical sector show a significantly better picture. IMS Health expects growth of 4.5 to 5.5% in the global pharmaceutical market for 2009, as in 2008. Only for the US market is slowed growth of 1 to 2% expected. The report anticipates growth of 3 to 4% in the five largest European markets as well as some double-digit growth rates for developing countries.

With regard to the interest rate trend, the Deutsche Bundesbank (German Central Bank) expects the current yield for long-term government bonds in Germany to average 3.8% in 2009 and 4.1% in the subsequent year. With regard to the exchange rate between the US dollar and the euro, the Deutsche Bundesbank (German Central Bank) is assuming that this will basically remain constant in the forecast period 2009 to 2010. From a twelve-month point of view, financial institutions estimate that the British pound will paint an inconsistent picture, ranging between 0.72 and 0.92 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. Projections put global revenue at more than 60 billion USD in 2011. The current market volume is already approximately 50 billion USD (source: Datamonitor 2007).

The inadequate efficacy of the 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 rheumatoid arthritis indication area in particular will emerge globally as a market segment with total revenue well in excess of 10 billion USD (source: Datamonitor 2005).

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

Increase in revenue from product sales expected

The following developments are expected for the Specialty Pharma segment:

Further revenue growth from Eligard® supported by six-month depot formulation

The introduction of the six-month depot formation of Eligard® (Eligard® 45 mg) has led to a significant increase in Eligard® revenue, especially since mid-2008. In 2009, MediGene expects to see another increase in the drug's market share in Europe and a further boost to the total revenue generated with Eligard®.

Veregen® – product revenue in the US through the marketing partner Nycomed

MediGene's marketing partner Nycomed started with the active marketing and distribution of the Polyphenon E® Ointment under the brand name Veregen® in February 2009 after the availability of the active pharmaceutical ingredient was secured by the supplier Mitsui Norin in 2008. As a result, MediGene is expecting increasing revenues from the sale of this ointment on the US market in the 2009 financial year. In addition to income from the sale of the active ingredient to its partner Nycomed, MediGene receives a share of the net revenue earned on the market.

Projects – goals achieved in 2008

Expectations for 2008		
Specialty Pharma		
Eligard®	Market launch of the six-month depot formulation of Eligard® in other European countries by Astellas Pharma	Achieved
Polyphenon E® Ointment/Veregen®	First decision on the applications for authorization submitted in three European countries	Delayed
Oracea®	Decision on the application for authorization in Europe	Achieved
	Market launch in Germany by MediGene	Product rights sold
Biopharma		
EndoTAG™-1	Publication of the data from the phase II clinical trial in the pancreatic cancer indication	Achieved
	Continuation of patient recruitment for the ongoing phase II clinical trial in the triple receptor negative breast cancer indication	Achieved
RhuDex™	Preparation of a further phase II clinical trial with the new dosage form in the rheumatoid arthritis indication	Delayed
oHSV (NV1020)	Publication of the results from the phase II clinical trial in the indication of liver metastases derived from colorectal cancer	Achieved
mTCR technology and product candidates	Spin-off into a separate company with a stake held by the MediGene Group	Achieved

Veregen® – 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 Nycomed. The successful development of the ointment for an additional indication would open up additional commercial potential.

Approval and market launch of Veregen® in Europe

Following the expected market approval for Veregen® in Germany, Spain and Austria, which is anticipated for the first half of 2009, MediGene also expects Veregen® to be introduced the first European countries.

R&D projects – status expected for December 2009

Projects - status expected for December 2009	
Specialty Pharma	
Eligard®	Further increase in product revenue
Veregen®	Decision on the applications for authorization submitted in three European countries
	Start of active marketing in the US
	Conclusion of sales partnerships in Europe
Biopharma	
EndoTAG™-1	Conclusion of a development and marketing partnership
	Conclusion of patient recruitment for the ongoing phase II clinical trial in the indication of triple receptor negative breast cancer
RhuDex™	Re-assumption of clinical development and phase I
oHSV (NV1020)	Publication of the results from the phase II clinical trial in the indication of liver metastases derived from colorectal cancer at a conference
	Partnership or spin-off

Finding a partner for EndoTAG™-1 – most important objective for 2009

The following targets have been set for the Biopharma segment:

EndoTAG™-1 – activities to conclude a global partnership

MediGene presented the results of a phase II clinical trial with the drug candidate EndoTAG™-1 for the treatment of pancreatic cancer in October 2008. Talks with several companies regarding the conclusion of a global development and marketing partnership have been under way since November 2008.

EndoTAG™-1 – continuation of the phase II clinical 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 patient recruitment process should be completed in 2009 and the first results are expected to be released at the end of the year. The full analysis is expected in 2010.

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

In coordination with the British drug approval authorities, MediGene is conducting in-vitro trials with RhuDex™ with the goal of ruling out a possible connection between the active ingredient and an increased cardiovascular risk. The clinical development is then expected to resume and the phase I trial should be realized with the new formulation. Furthermore, it is intended to design and prepare a phase II study, scheduled to start in 2010.

NV1020 – publication of results from the phase I/II clinical trials
In 2008, MediGene concluded a phase II clinical trial in the indication of liver metastases derived from colorectal cancer. Data from the trial on the safety and the first indications of its efficacy have already been released at several conferences. As such, a final analysis of the study results should also be presented in 2009.

Financial forecast for 2009 and 2010

Increase in total revenue, lower loss on EBITDA basis
MediGene expects to conclude a development and marketing partnership for EndoTAG™-1 in 2009. It believes this will have a significant influence on the annual result, but its financial effects are very difficult to assess at present. Excluding payments from this partnership, MediGene anticipates increasing revenues most of which will stem from the product revenue of Eligard® and Veregen®.

As a result of the measures already introduced, MediGene anticipates falling operating expenses for 2009. A decline in the loss on an EBITDA basis is expected even without considering the income from an EndoTAG™-1 partnership.

The crucial factors which will determine whether this forecast is achieved in 2009 are another increase in revenue from Eligard®, the successful marketing of Veregen® in the US, and the conclusion of marketing partnerships for Veregen® in Europe.

Following the targeted conclusion of an EndoTAG™-1 partnership, MediGene plans to release an updated forecast including the income from the partnership.

For the 2010 financial year, MediGene's management anticipates another increase in the revenue from the marketing of products and an improvement of the result on an EBITDA basis.

Based on current business planning, as well as the various scenarios that have developed from this, the management assumes that, even in the absence of an EndoTAG™ partnership, the financing of the company is secure until after the end of 2010 as a result of the utilization of the option agreement with YA Global Investments.

Overall number of employees will also decrease in 2009
In the course of the cost reduction, MediGene aims to reduce the number of employees marginally in 2009. In order to enhance the technical and social expertise of our employees further, MediGene will also offer continuing education measures both internally and externally in the future.

Research and development still the largest cost block
A small number of larger single investments in property, plant, and equipment (>100 T€) are planned in 2009 and 2010. The expenses for research and development are still the largest cost block.

Future procurement

Regarding procurement, MediGene does not expect developments in 2009 to deviate from those in the previous year. In 2009, MediGene will continue to purchase the drug Eligard® from QLT for the European market. MediGene will obtain Veregen® for both the US and European markets from contract manufacturers in Japan and Germany.

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 company's legal 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

Planegg/Martinsried, March 5, 2009
MediGene AG

Dr Peter Heinrich
Chief Executive Officer

Dr Thomas Klaue
Chief Financial Officer

Dr Frank Mathias
Chief Operating Officer

Dr Axel Mescheder
Chief Scientific Officer and Chief Development Officer

Consolidated income statement

of MediGene AG for the periods from January 1 to December 31, 2008 and 2007

In T€		Notes No.	2008	2007
1.	Product sales		**33,507**	22,058
2.	Other operating income		**6,099**	1,819
3.	**Total revenue**	(27)	**39,606**	**23,877**
4.	Cost of sales	(28)	**-26,926**	-18,493
5.	**Gross profit**		**12,680**	**5,384**
6.	Selling expenses	(29)	**-2,763**	-2,578
7.	General administrative expenses	(30)	**-7,721**	-6,448
8.	Research and development expenses	(31)	**-27,465**	-28,025
9.	Loss resulting from spin-off	(35)	**-6,431**	0
10.	**Operating result**		**-31,700**	**-31,667**
11.	Interest income	(32)	**1,452**	2,041
12.	Interest expense	(32)	**-2**	-47
13.	Expenses from financial assets	(32)	**-352**	-555
14.	Foreign exchange losses	(32)	**-2,035**	-305
15.	Losses from embedded derivatives	(32)	**-253**	-812
16.	Share of loss of an associate		**-256**	0
17.	**Result before income tax**		**-33,146**	**-31,345**
18.	Taxes	(53)	**2,356**	1,469
19.	**Net loss**		**-30,790**	**-29,876**
	Result per share in €			
	Actual and fully diluted		**-0.91**	-0.95
	Weighted average number of shares outstanding		**34,008,289**	31,541,103

Consolidated balance sheet

of MediGene AG as of December 31, 2008 and 2007

Assets

In T€	Notes No.	Dec. 31, 2008	Dec. 31, 2007
A. Non-current assets			
I. Property, plant & equipment	(40)	1,151	1,802
II. Intangible assets	(41)	28,511	46,607
III. Goodwill	(37)	11,090	12,710
IV. Financial assets	(42)	540	891
V. Investment in an associate	(43)	3,269	0
VI. Other assets		5	96
Total non-current assets		44,566	62,106
B. Current assets			
I. Inventories	(44)	2,185	568
II. Trade accounts receivable	(45)	3,117	357
III. Cash and cash equivalents	(46)	25,101	46,511
IV. Other current assets	(45)	5,777	5,387
Total current assets		36,180	52,823
Total assets		80,746	114,929

Liabilities and shareholders' equity

In T€	Notes No.	Dec. 31, 2008	Dec. 31, 2007
A. Shareholders' equity			
I. Subscribed capital	(47)	34,029	33,946
Number of shares issued and outstanding			
December 31, 2007: 33,946,481			
December 31, 2008: 34,028,561			
II. Additional paid-in capital	(48)	335,973	334,667
III. Accumulated deficit	(49)	-293,267	-262,477
IV. Other reserves	(50)	-11,829	-3,043
Total shareholders' equity		64,906	103,093
B. Non-current liabilities			
I. Financial liabilities	(51)	169	194
II. Pension obligations	(52)	215	250
III. Deferred taxes	(53)	0	1,656
Total non-current liabilities		384	2,100
C. Current liabilities			
I. Trade accounts payable	(54)	10,496	2,242
II. Embedded financial instruments	(55)	1,166	913
III. Other current liabilities	(54)	3,339	6,008
IV. Accruals	(56)	455	437
V. Deferred income		0	136
Total current liabilities		15,456	9,736
Total liabilities and shareholders' equity		80,746	114,929

Consolidated cash flow statement

of MediGene AG for the periods from January 1 to December 31, 2008 and 2007

In T€	2008	2007
Cash flow from operating activities		
Net loss for the year (before taxes)	-33,146	-31,345
Adjustments to reconcile net loss to cash used in operating activities:		
Stock-based compensation options/bonds	1,135	479
Unrealized exchange loss on foreign currency transaction	1,052	0
Depreciation and impairment	7,116	1,359
Gain on sales of property, plant & equipment	-4,329	0
Loss from investments	352	555
Interest income	-1,452	-2,041
Interest expense	2	47
Changes in:		
Inventories	-1,617	-166
Other assets and prepaid expenses	-3,114	-309
Trade accounts payable	8,254	-396
Accruals	18	-343
Other liabilities and deferred income	-2,781	-3,254
Taxes	893	1,377
Share of net loss of an associate	256	0
Net cash used by operating activities	-27,361	-34,037
Cash flow from investing activities		
Purchase of property, plant & equipment	-358	-1,108
Return of intangible assets	8,000	0
Purchase of available-for-sale financial assets	0	-188
Investment in an associate	-3,293	0
Net cash from/used by investing activities	4,349	-1,296
Cash flow from financing activities		
Proceeds from capital increase	0	28,154
Expenses from capital increase	0	-981
Proceeds from stock options and convertible bonds	253	71
Repayment of convertible bonds	-24	-105
Interest received	1,507	1,978
Interest paid	-2	-41
Net cash from financing activities	1,734	29,076
Decrease in cash and cash equivalents	-21,278	-6,257
Cash and cash equivalents at beginning of the period	46,511	52,498
Foreign currency translation	-132	270
Cash and cash equivalents at end of the period	25,101	46,511

Consolidated changes in shareholders' equity

of MediGene AG for the periods from January 1 to December 31, 2008 and 2007

	Shares	Share capital	Capital reserves	Accumulated losses	Other reserves	Total share-holders' equity
	No.	T€	T€	T€	T€	T€
Balance Jan. 1, 2008	**33,946,481**	**33,946**	**334,667**	**-262,477**	**-3,043**	**103,093**
Net loss for the year				-30,790		**-30,790**
Net loss on hedge of an investment					-1,837	**-1,837**
Currency translation adjustments					-6,949	**-6,949**
Comprehensive income						**-39,576**
Capital increase	0	0	0			**0**
Expenses capital increase			0			**0**
Exercised options/bonds	82,080	83	171			**254**
Expenses on new options/bonds			1,135			**1,135**
Balance Dec. 31, 2008	**34,028,561**	**34,029**	**335,973**	**-293,267**	**-11,829**	**64,906**
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**
Realized 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**
Expenses capital increase			-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**

Notes to the consolidated financial statements

of MediGene AG, Planegg/Martinsried for the financial year 2008

A) Business activities and corporate information

MediGene AG, Planegg/Martinsried, (hereinafter also referred to as »MediGene«) is a biopharmaceutical company that specializes in the research, development, and commercialization of innovative drugs, concentrating on indications of great medical necessity and therefore substantial commercial interest. Its research and development activities center upon cancer and autoimmune diseases. The drugs approved thus far are sold through sales partners.

The Group's main activities are described in Note (G) »Segment Reporting«.

MediGene AG was founded in 1994 in Planegg/Martinsried near Munich (Germany) with share capital of 26 T€. In 1996, the company was transformed into a stock corporation. Its headquarters are located at Lochhamer Straße 11, 82152 Planegg/Martinsried, Germany. It 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: Regulated Market, Prime Standard; SIN 502090; code MDG). As of February 9, 2009, MediGene has been listed in the TecDAX, a German Stock Exchange index.

In addition to the parent company, MediGene AG in Planegg/Martinsried, Germany, 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). Moreover, MediGene has held 39.09% of the shares in the associate Immunocore Ltd., Abingdon, Oxfordshire, United Kingdom, since September 30, 2008.

B) Accounting and valuation principles

(1) Basic principles in preparing the consolidated financial statements

The consolidated financial statements are fundamentally prepared using the purchase cost principle. Exceptions here are available-for-sale financial assets, derivative financial instruments, as well as assets acquired in the course of business combinations. The consolidated annual financial statements are compiled in German and use the euro. All figures are rounded to the nearest thousand (T€) unless otherwise stated.

(2) Statement of compliance with IFRS and the requirements in accordance with section 315a, German Commercial Code (HGB)

The MediGene Group, a capital market-oriented parent company as defined by Article 4 of Regulation (EC) No. 1606/2002 uses the International Financial Reporting Standards (IFRS) to their full extent.

These consolidated financial statements were prepared in compliance with the International Financial Reporting Standards as adopted in the EU. The company's Executive Board is of the opinion that the consolidated financial statements reflect all business transactions necessary to present the asset, financial, and income position upon conclusion of the periods ending on December 31, 2007 and 2008. These consolidated financial statements for the MediGene Group furthermore meet the requirements according to section 315a of the German Commercial Code (HGB).

The consolidated financial statements of MediGene AG for the financial year ending December 31, 2008 were approved for publication by an Executive Board resolution on March 5, 2009.

(3) Changes in accounting, valuation, and reporting principles

MediGene has not made any fundamental changes to the accounting and valuation methods beyond the application of new and altered accounting standards and new interpretations as illustrated in the following.

Changes in accounting principles in the reporting period

Two items were added to the income statement compared to the previous year's reporting period:

a) loss resulting from spin-off, accrued in the course of the transfer of intangible assets, and
b) losses resulting from derivative financial instruments which were posted separately in the reporting period, in order to create a higher degree of transparency. Previous year's values were adjusted accordingly.

Furthermore, »financial assets« are no longer portrayed in the consolidated assets development.

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

In the consolidated financial statements for the year 2008, the following new and revised International Financial Reporting Standards and Interpretations (IFRIC) were applied for the first time:

IAS 39/IFRS 7	Amendments/Disclosures: Reclassification of Financial Assets
IFRIC 11/IFRS 2	Group and Treasury Share Transactions
IFRIC 13	Customer Loyalty Programs
IFRIC 14/IAS 19	The Limit on a Defined Benefit Asset, Minimum Funding Requirements, and their Interaction

The revised standards replace the previous versions of these standards and apply to financial years beginning on or after January 1, 2008. The adoption of new and revised standards impacts the 2008 consolidated annual financial statements of MediGene AG as follows:

Amendments to IAS 39 and IFRS 7: Disclosures: Reclassification of Financial Assets

On October 13, 2008, the IASB issued amendments that make it possible to reclassify certain financial assets in the categories »held for trading« and »available for sale«. MediGene has chosen not to reclassify these assets. The application of this interpretation has no effect on the Group's asset, financial, or income position.

IFRIC 11 (»IFRS 2 – Group and Treasury Share Transactions«)

This interpretation states that agreements which grant employees rights to an entity's equity instruments must also be accounted for as share-based payment transactions settled with equity instruments if the company acquires the instruments from a third party or if the shareholders provide the necessary equity instruments. The application of this interpretation has no effect on the Group's asset, financial, or income position.

IFRIC 13 (»Customer Loyalty Programs«)

IFRIC 13 was issued in June 2007 and is to be applied for the first time for financial years beginning on or after July 1, 2008. According to this interpretation, loyalty award credits (points) granted to customers are to be accounted for separately from the underlying sale transaction. A portion of the fair value of the proceeds is therefore allocated to the loyalty award credits granted and deferred. The revenue is recognized over the period in which the loyalty award credits (points) granted are utilized or expire. As the Group does not currently maintain any customer loyalty programs, this interpretation has no effect 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 issued in July 2007 and is to be applied for the first time for financial years beginning on or after January 1, 2008. This interpretation provides guidance on how to determine the limit on the surplus from a defined benefit scheme that may be capitalized as an asset in accordance with IAS 19 »Employee Benefits«. The surpluses currently arising from some defined benefit schemes are of no particular significance. For this reason, no significant effects on the Group's asset, financial, or income position have arisen from the use of this interpretation.

Future changes in accounting and valuation methods

MediGene is waiving the early application of the following newly announced, but not yet mandatory standards and interpretations:

Standard/ Interpretation/ Amendments	Title	Relevant for reporting period (starting date)	Incorporation into EU law
IFRS 1R/IAS 27	Amendments to Costs of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	January 1, 2009	No
IFRS 2	Amendments to IFRS 2 (»Share-Based Payments – Vesting Conditions and Cancellations«)	January 1, 2009	December 10, 2008
IFRS 3R/IAS 27R	Amendments to Business Combinations and Consolidated and Separate Financial Statements	July 1, 2009	No
IFRS 8	Operating Segments	January 1, 2009	November 21, 2007
IAS 1R	Amendments to the Presentation of Financial Statements	January 1, 2009	December 17, 2008
IAS 23R	Amendments to Borrowing Costs	January 1, 2009	December 10, 2008
IAS 32/IAS 1R	Financial Instruments – Presentation	January 1, 2009	No
IAS 39	Financial Instruments: Recognition and Measurement – Eligible Hedged Items	July 1, 2009	No
IFRIC 12	Service Concession Arrangements	January 1, 2008	No
IFRIC 15	Agreements for the Construction of Real Estate	January 1, 2009	No
IFRIC 16	Hedges in a Net Investment in a Foreign Operation	October 1, 2008	No
Improvements to IFRS in 2008	Omnibus edition	Board publication May 2008	No

IFRS 1/IAS 27R (»Amendments«)

The amendments to IFRS 1 »First-time Adoption of International Financial Reporting Standards« and IAS 27 »Consolidated and Separate Financial Statements according to IFRS« address two different problems in connection with the valuation of investments in the parent company's separate financial statements. The first amendment makes it easier for first-time IFRS users to determine the acquisition cost of an investment. This change does not apply to MediGene, as the company already uses IFRS. The second amendment refers to certain reorganizations in situations where the entities involved are under common control. Since there are no incidents of this kind can be foreseen, this change does not have any impact on the presentation of the assets, financial, or income position either.

IFRS 2 (»Share-Based Payment – Vesting Conditions and Cancellations«)

IFRS 2 states that characteristics of a share-based payment not involving vesting conditions are to be incorporated in the calculation of the fair value of the share-based payment on the day it is granted (the fair value therefore also reflects market-based vesting conditions). Moreover, the failure to meet a condition other than a vesting condition constitutes a cancellation according to IFRS 2. IFRS 2 stipulates the accounting methods for cancellations by the company, but provides no information on the treatment of cancellations by other parties. The amendments state that cancellations by other parties are to be treated as if they were cancellations on the part of the company. Since no planned cancelations in terms of this standard are due within the group, no major impact on the group's assets, financial, or income position is expected.

IFRS 3R (»Business Combinations and IAS 27R Consolidated and Separate Financial Statements in Accordance with IFRS«)

The revised standards were issued in January 2008, and are to be applied for the first time for financial years beginning on or after July 1, 2009. The standard introduces amendments to the accounting of business combinations taking place after this date that will have an effect on the amount of goodwill recognized, the results reported in the period that a company acquisition is carried out, and the future results. IAS 27R requires that a change to the stake held in a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such a transaction will not result in goodwill or a gain or loss. In addition, the

requirements for distributing losses to parent companies and minority shares have changed, as have the accounting rules for transactions that lead to a loss of control. Consequential amendments have been made to IAS 7 »Statement of Cash Flows«, IAS 12 »Income Taxes«, IAS 21 »The Effects of Changes in Foreign Exchange Rates«, IAS 28 »Investment in Associates«, and IAS 31 »Interests in Joint Ventures«. The changes according to IFRS 3R and IAS 27R will have impacts on future acquisitions, loss of control, and transactions with minority interests. Early adoption is permissible, but the Group does not plan to do so.

IFRS 8 (»Operating Segments«)
This standard requires that a group disclose information on its operating segments. It replaces the requirement to set primary (business) and secondary (geographical) segment reporting formats for the group. MediGene has decided not to apply this standard early for 2008. As a result of the revision of IFRS 8 requirements with regard to 2009, it emerged that the previous primary business segments »Specialty Pharma« and »Biopharma« can be renamed »Marketed Products« and »Drug Candidates«. The previous segment reporting for »Others/Not Classified« can be continued as »Other Segment« in the sense of IFRS 8. All three segments must be reported in line with IFRS 8.

The Group has determined that the operating segments it identified in accordance with IFRS 8 correspond with those previously identified in accordance with IAS 14 »Segment Reporting«.

IAS 1R (»Presentation of Financial Statements (Revised)«)
The revised standard was issued in September 2007 and is to be applied for the first time for financial years beginning on or after January 1, 2009. The standard requires separate disclosures for changes in shareholders' equity resulting from transactions with shareholders in their role as equity providers, as well as for other changes in shareholders' equity. The statement of changes in equity includes all details on business transactions with shareholders, while all other changes in equity are presented in a single line. In addition, the standard introduces the disclosure of the comprehensive income in the entire period in which all components of comprehensive income are shown either in a single itemization or in two itemizations affiliated with one another. MediGene will take advantage of the option of continuing to present a »traditional« income statement together with a second statement of comprehensive income (SOCI).

IAS 23R (»Borrowing Costs«)
The revised standard IAS 23 »Borrowing Costs« was issued in March 2007 and is to be applied for the first time for financial years beginning after January 1, 2009. The standard requires capitalization of borrowing costs that can be attributed to a qualifying asset. A qualifying asset is one that takes a considerable amount of time to prepare for its intended use or sale. It currently appears that the application of the standard will have no effects on the asset, financial, or income position of the Group whatsoever given the absence of eligible assets.

IAS 32 (»Financial Instruments – Presentation«)
The amendments largely pertain to questions on the distinction between equity and borrowed capital. Under certain conditions, there is the option in particular to post terminable instruments as equity. The changes are of particular interest for business partnerships and cooperatives. No future effects are expected for MediGene.

IAS 39 (»Financial Instruments: Recognition and Measurement – Eligible Hedged Items«)
These amendments to IAS 39 were issued in August 2008 and are to be applied for the first time in financial years beginning on or after July 1, 2009. The amendment states more concretely how the principles for reporting hedging relationships included in IAS 39 are to be applied to the entry of a one-sided risk in an underlying transaction as well as to the entry of inflation risks as an underlying transaction. It states that it is permissible to only designate a portion of the changes to the fair value or the cash flow fluctuations of a financial instrument as an underlying transaction. The Group does not anticipate that the change will have an effect on its asset, financial, or income position, as it does not report any hedging relationships of this type at the moment.

IFRIC 12 (»Service Concession Arrangements«)
IFRIC Interpretation 12 was issued in November 2006 and is to be applied for the first time for financial years beginning on or after January 1, 2008. The interpretation regulates the accounting of obligations assumed in the scope of service concessions and rights obtained in the financial statements of the operator. The companies included in the consolidated financial statements are not operators as defined by IFRIC 12. This interpretation will therefore have no effect on the Group.

IFRIC 16 (»Hedges of a Net Investment in a Foreign Operation«)
IFRIC 16 was issued in July 2008 and is to be applied for the first time for financial years beginning on or after October 1, 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on carrying a hedge of a net investment. It thereby also provides guidelines for identifying foreign exchange risks that can be hedged as part of the hedge of a net investment, which group companies can hold the instruments to hedge a net investment, and how a company should determine the foreign currency exchange gains or losses from the net investment and the hedging instrument to be reclassified upon disposal of the net investment. The Group is currently assessing which accounting and valuation methods are to be applied for the reclassification upon disposal of the net investment. It is also still uncertain whether any provisions pursuant to IFRIC 16 will be made in the future.

Improvements to IFRS 2008 (»Omnibus edition«)
In May 2008, the IASB issued its first omnibus of amendments to various IFRS standards. These mainly dealt with eliminating inconsistencies and clarifying formulations that could lead to misunderstandings. The standard includes various amendments separated into two parts. Part 1 includes all amendments that have an impact on the accounting; part 2 includes terminology or editorial changes that, in the Board's opinion, the user will regard as minor. The Group has decided not to adopt these amendments early.

In the following section, MediGene has subjected the accounting-related changes (part 1) to an initial examination and come to the following conclusions regarding the future effects on the Group's asset, financial, or income position:

Standard	Accounting-related amendment	Potential effect
IFRS 5 »Non-current Assets Held for Sale and Discontinued Operations«: Plan to sell the controlling interest in a subsidiary	When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under IFRS 5, even when the company retains a non-controlling interest in the subsidiary after the sale.	No effect
IAS 1 »Presentation of Financial Statements«: Current/non-current classification of derivatives	Assets and liabilities classified as held for trading in accordance with IAS 39 »Financial Instruments: Recognition and Measurement« are not automatically classified as current in the balance sheet.	Restructuring of balance sheet
IAS 16 »Property, Plant, and Equipment«: a) Recoverable amount b) Sale of assets held for rental	a) The amendment replaces the term »net selling price« with »fair value less costs to sell«, to be consistent with IFRS 5 »Non-current Assets Held for Sale and Discontinued Operations« and IAS 36 »Impairment of Assets«. b) Items of property, plant, and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventory once rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. IAS 7 »Statement of Cash Flows« has been expanded to include the requirement that payments for manufacturing or acquiring such assets are to be classified as cash flows from operating activities. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.	a) No effect b) Not applicable
IAS 19 »Employee Benefits«: a) Curtailments and negative past service costs b) Plan administration costs c) Replacement of the term »fall due« d) Guidance on contingent liabilities	a) The definition of »past service costs« has been revised to include reductions in benefits related to past services (»negative past service costs«) and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans changes that result in a reduction in benefits related to future services are accounted for as curtailment. b) Plan administration costs that have already been included in the actuarial assumptions used to measure the defined benefit obligation will no longer be considered in the definition of »return on plan assets« in the future. c) The definition of »short-term« and »other long-term« employee benefits has been revised in order to focus on the point in time at which the liability is due to be settled. d) The reference to the recognition of contingent liabilities was removed to ensure consistency with IAS 37 »Provisions, Contingent Liabilities, and Contingent Assets«. In accordance with IAS 37, contingent liabilities shall not be accounted for.	a) No effect b) No effect c) No effect d) No effect
IAS 20 »Accounting for Government Grants and Disclosures of Government Assistance«: Government loans with no interest or a below-market interest rate	Loans granted with no or low interest rates will not be exempt from the requirement to account for at fair value. In the future, the interest rate advantage from government loans with no or low interest rates will also be quantified. This brings the standard in line with IAS 39. The difference between the amount received and the discounted amount is accounted for as a government grant.	Not applicable
IAS 23 »Borrowing Costs«: Components of borrowing costs	The definition of borrowing costs in the future consolidates the types of items that are considered components of »borrowing costs« – that is components of the interest expense calculated using the effective interest rate method according to the definition in IAS 39. This will underline the interdependency between IAS 23 and IAS 39.	At the moment there are no qualifying assets available

Standard	Accounting-related amendment	Potential effect
IAS 27 »Consolidated and Separate Financial Statements«: Measurement of a subsidiary held for sale in separate financial statements	When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.	No effect
IAS 28 »Investments in Associates«: a) Required disclosures when investments in associates are accounted for at fair value through profit and loss b) Impairment investments on an associate	a) If an associate is accounted for at fair valuethrough profit and loss in accordance with IAS 39 (because it is exempt from the requirements of IAS 28), only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the associate's ability to transfer funds to the entity in the form of cash or repayment of loans applies. b) An investment in an associate is to be considered as a single asset when examining the existence of potential impairment. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance. The same is the case for possible write-down reversals. As such, write-down reversals overall are recognized as an increase in the investment in an associate.	a) No effect b) No effect
IAS 29 »Financial Reporting in Hyperinflationary Economies«: Description of measurement basis in financial statements	The reference to the exception from the requirement stating that assets and liabilities must be measured at historical cost has been revised; such that it notes property, plant, and equipment as being an example, rather than implying that it is a definite list.	Not applicable
IAS 31 »Interests in Joint Ventures«: Required disclosures when investments in jointly controlled entities are accounted for at fair value through profit and loss	If a joint venture is accounted for at fair value in accordance with IAS 39 (because it is exempt from the requirements of IAS 31), the only disclosure requirements of IAS 31 are those relating to the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income, and expenses.	Not applicable
IAS 36 »Impairment of Assets«: Disclosure of estimates used to determine recoverable amount	When discounted cash flows are used to estimate »fair value less costs to sell«, the same disclosures are required as when discounted cash flows are used to estimate »value in use«.	No effect
IAS 38 »Intangible Assets«: a) Advertising and promotional activities b) Unit of production method of amortization	a) Expenditures on advertising and promotional activities are recognized as an expense when the entity either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail-order catalogues. b) IAS 38 had previously stated that the use of production method of amortization was not allowed if it led to a lower cumulative amortization amount than the straight-line method. In future, the production method of amortization will be allowed if it better reflects the actual terms of use. This is even the case when applying it leads to a lower cumulative write-down amount than the straight-line method.	a) No effect b) No effect
IAS 39 »Financial instruments: Recognition and Measurement«: a) Reclassification of derivatives into or out of the classification of at fair value through profit and loss b) Designation and documentation of hedges at the segment level c) Applicable effective interest rate on cessation of fair value hedge accounting	a) The modification clarifies that changes in circumstances relating to derivatives –specifically derivatives designated or de-designated as hedging instruments after initial recognition – are not reclassifications. For this reason, a financial derivative can be reclassified into or out of the classification of financial instruments assessed at fair value through profit and loss after initial recognition. This is also the case, for example, when financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with IFRS 4.45 »Insurance Contracts«. This is a change in circumstance, not a reclassification. b) The reference to a »segment« in IAS 39 in connection with determining whether an instrument qualifies as a hedge has been eliminated. c) In the future, use of the revised effective interest rate (rather than the original effective interest rate) is required when re-measuring a debt instrument on the cessation of fair value hedge accounting.	a) No effect b) Not applicable c) Not applicable
IAS 40 »Investment Property«	Property under construction or development for future use as investment property	Not applicable
IAS 41 »Agriculture«	Discount rate for fair value calculation. Additional biological transformations.	Not applicable

(4) Significant accounting judgments, estimates, and assumptions

Preparing the consolidated financial statements in accordance with the generally recognized accounting principles requires that the Executive Board make judgments and estimates which influence the income, expenses, assets, debt, and contingent liabilities listed in the financial statements as per the balance sheet date. These estimates and assumptions are of course subject to considerable uncertainty and correspond to the actual subsequent circumstances in only the rarest of cases.

Accounting judgments

The company's management made the following judgments, which significantly impact the figures in the financial statements, in applying the accounting and valuation methods.

Deferred tax assets from loss carryforwards

The recognition of deferred tax assets requires certain assumptions to be made within the management's judgment. This above all pertains to the assessment of the circumstances and the period in which tax assets can be realized through the use of existing loss carryforwards. As additional losses are anticipated in the foreseeable future, the management has decided not to recognize these to the extent that they exceed tax liabilities.

Capitalization of development expenses

Development expenses must be capitalized if the requirements for this in accordance with IAS 38 are met. This requires the management to make a number of estimates and assumptions. In the period ending on December 31, 2008, no development expenses were capitalized due to the fact that the management did not believe all the necessary requirements in accordance with IAS 38 had been met.

Estimates and assumptions

The most important assumptions regarding the future and other key sources of estimation uncertainty existing on the balance sheet date which entail considerable risk that it may become necessary to adjust the carrying amounts of assets and liabilities within the next financial year are explained below:

Impairment of goodwill and intangible assets

The Group examines at least once yearly whether goodwill is impaired. This requires, among other things, estimating the values in use of the underlying research and development projects which are allocated to both the goodwill and the cash-generating units. As the projects are not yet available for use, they are tested for impairment once yearly. In order to estimate the value in use, the management has to assess the expected future cash flows of the individual projects, as well as the chances of the underlying projects showing successful development and select an appropriate discount rate. Given the length of the planning periods (up to 20 years), the assumptions and forecasts associated with this are subject to a significant degree of uncertainty. Please refer to item (37) for the methodology of the impairment test and the results and presentation thereof.

Impairment of available-for-sale financial assets

The Group classifies the shares held in the listed Canadian company QLT, Inc., Vancouver, British Columbia, Canada, as available for sale, and recognizes changes to their fair value directly in shareholders' equity. If the fair value and its duration has dropped, the management makes assumptions about the decrease in value and its duration in order to determine if this is an impairment that should be recognized in the income statement for the period.

Recording of one-time payments

Recording one-time payments requires assessing whether the agreed payment will be made for services rendered or for those still to be rendered. If, in the view of the management, all contractually agreed services are performed and the remaining requirements for the recognition of revenue are met, the one-time payments are recognized immediately as income.

Fair value

Fair values are fundamentally determined on the basis of market prices. The fair values of assets and liabilities for which no market prices can be determined are assessed using suitable valuation methods. The respective valuations are generally carried out using budget calculations based on management estimates. Given the long-term nature of the planning periods, these estimates are subject to a considerable degree of uncertainty. MediGene has measured financial assets and derivative financial instruments at fair value.

Defined benefit plans

The MediGene Group has concluded agreements on pension plans with employees and members of the company's management. The expense accrued from defined benefit plans is determined using actuarial calculations. These are based on assumptions with regard to discount rates, expected income from plan assets, future wage and salary increases, mortality rates and future pension increases. Given the long-term nature of these plans, such estimates are subject to a considerable degree of uncertainty (cf. item (52)).

(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 given financial year. The financial statements of the companies within the reporting entity are prepared according to uniform accounting and valuation methods.

All intra-Group balances, transactions, income, expenses, and profit and losses arising from intra-Group transactions included in the carrying amount of assets have been eliminated in full in accordance with IAS 27.24.

Reporting entity

In the 2008 reporting year, no changes to the reporting entity were made compared to the same period of the previous year.

Subsidiaries

Subsidiaries are all companies for which the Group has the capacity to determine financial and commercial policy. This regularly entails a share of more than 50% in the voting rights. When assessing whether there is a controlling interest, the existence and effect of potential voting rights that can be exercised or converted at that time are taken into consideration. Subsidiaries are included in the consolidated financial statements (full consolidation) starting at the point in time when the Group acquired a controlling interest. The consolidation is concluded as soon as the parent company no longer has control.

In addition to the financial statements of the parent company MediGene AG, Planegg/Martinsried, Germany, the consolidated financial statements also include the financial statements of the wholly owned subsidiaries MediGene, Inc., San Diego, USA (acquired in 2001) and MediGene Ltd., Abingdon, Oxfordshire, United Kingdom (acquired in 2006).

Consolidated entity per Dec. 31, 2008	MediGene, Inc.	MediGene Ltd.
Registered	San Diego, USA	Abingdon, Oxfordshire, United Kingdom
Percentage stake %	100	100
Shareholders' equity in T€	-120	-4,193
Net loss for 2008 in T€	-1,871	-4,522

(6) Investments in an associate

The Group's investments in an associate are accounted for using the equity method in accordance with IAS 28. An associate is an entity which is neither a subsidiary nor a joint venture, but over which the Group has significant influence.

Using the equity method, investments in an associate are recognized in the balance sheet at acquisition cost plus the changes in the Group's share of the associate's net assets made after the acquisition. Goodwill relating to the associate is included in the carrying amount of the investment, and is neither amortized nor tested for impairment separately.

The income statement reflects the Group's share of the associate's profits. The Group recognizes its share of any changes shown directly in the shareholders' equity of the associate and discloses this, if applicable, in the statement of changes in shareholders' equity. Unrealized gains and losses from transactions between the Group and the associate are eliminated in line with the interest in the associate.

Associate

Effective as per September 30, 2008, MediGene Ltd. founded the company Immunocore Ltd. together with a group of private investors. MediGene Ltd. introduced the monoclonal T-cell receptor technology (mTCR) to Immunocore Ltd. as the core of the new company. Moreover, MediGene Ltd. made a cash contribution of 3 million €, as well as a non-cash contribution (patents and other assets) of 1 million €. The patents mainly pertain to the monoclonal T-cell receptors (mTCR). In return, MediGene Ltd. receives 39.09% of the shares in Immunocore Ltd., making it the new company's largest shareholder. At the moment, Immunocore Ltd. is exclusively a research company which focuses on enhancing the monoclonal T-cell receptor technology platform (mTCR).

The Immunocore Ltd. financial year is deviant, starting on October 1 of the respective reporting year. For inclusion in the consolidated financial statement, Immunocore Ltd. has prepared an interim financial statement as per December 31, 2008, in accordance with standard accounting principles.

Associate per Dec. 31, 2008	Immunocore Ltd.
Registered	Abingdon, Oxfordshire, United Kingdom
Percentage stake %	39.09
Shareholders' equity in T€	7,604
Net loss for 2008 in T€	-656

(7) Functional currency/Foreign currency translation

Foreign currency transactions and foreign business operations are reported in the consolidated annual financial statements of MediGene AG 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, the functional and reporting currency of the MediGene Group. The items included in the annual financial statements of the subsidiaries MediGene, Inc. and MediGene Ltd. are evaluated on the basis of the currency used in the primary business environment in which the company operates (functional currency). The functional currency of MediGene, Inc. is the US dollar (USD) and that of MediGene Ltd. is the British pound (GBP).

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the time of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency as per the rate on the balance sheet date. All differences are taken to the income statement with the exception of differences on foreign currency borrowings accounted for as a hedge of a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognized in the income statement. Non-monetary items valued at fair value in a foreign currency are translated using the rate that was in effect at the time when the fair value was determined. As for receivables and liabilities not carried in the functional currency, the translation is carried out as per the daily exchange rate on the balance sheet date. Purchases and sales in foreign currencies are translated using the daily exchange rate at the time of the transaction. Any resulting currency differences are included in the income statement.

Group companies

Every company within the Group determines its own functional currency. The items included in the respective company's financial statements are valued using this functional currency. In the consolidation of the foreign subsidiaries MediGene, Inc. and MediGene Ltd., the balance sheet items are fundamentally translated as per the rates on the balance sheet date. The goodwill arising from the acquisition held by MediGene Ltd. and the fair value adjustments to the carrying amounts of assets and liabilities of MediGene Ltd. are reported in the functional currency of the foreign company and translated into euro using the rate as per the balance sheet date. Any resulting exchange rate differences are recognized as a separate component of shareholders' equity.

For the period up to January 1, 2005, the Group had exercised the option of treating the goodwill arising in connection with the acquisition of the US subsidiary MediGene, Inc. as a Group asset. As a result, the goodwill is not subject to foreign currency translation.

Expenses and income are translated into the reporting currency for the purpose of consolidation at the respective average exchange rate for the year. Any differences from the translation of currency in the balance sheet versus the translation of the previous year are directly recognized not affecting net income in shareholders' equity.

The following exchange rates were used in 2008 and as per the balance sheet date of December 31, 2008:

Foreign currency exchange rates

	Rate as at closing date		Average rate for the year	
	Dec. 31, 2008	Dec. 31, 2007	**2008**	2007
1 € in USD	**1.4175**	1.4705	**1.47037**	1.37036
1 € in GBP	**0.9770**	0.7351	**0.79638**	0.68443

Source: Dresdner Bank AG, Reference Exchange Rates

(8) Property, plant, and equipment

Tangible fixed assets are valued at acquisition cost in accordance with IAS 16 »Property, Plant and Equipment« and are subject to regular depreciation using the straight-line method. Property, plant, and equipment are depreciated on a straight-line basis over their expected useful life or, in the case of leasehold improvements, also over the contract lease period, which may be shorter.

Technical equipment and laboratory facilities	3–13 years
Leasehold improvements	5–8 years

Subsequent acquisition expenses are only included as part of the acquisition expenses of the asset or, if appropriate, as a separate asset if it is likely that future economic benefits resulting from these will flow to the Group, and that the cost of the asset can be determined in a reliable manner. All other repairs and maintenance are charged as expenses to the income statement in the financial year in which they are incurred. Upon the sale of property, plant, and equipment, the acquisition costs and the accumulated depreciation associated with these are derecognized from the accounts in the year of the disposal. Gains and losses on disposals are posted in other income and expenses and recognized in net profit or loss. The purchase and sale of property, plant, and equipment within the Group is eliminated during the process of consolidation. The useful life, the depreciation method and the residual carrying amount are examined on each balance sheet date.

Details on the development of property, plant, and equipment can be found in the statement of fixed assets (p. 70 f).

(9) Intangible assets

Accounting policies for intangible assets

The accounting principles used for the Group's intangible assets are summarized in the following:

Technology rights, patents, and licenses

Individually acquired intangible assets with a finite useful life are valued at acquisition cost. Any acquired technology rights, patents, and licenses, as well as in-licensed research and development projects are capitalized as intangible assets if all three of the following criteria are met:

- The intangible asset can be identified.
- The company is likely to enjoy future commercial benefits from the asset.
- The costs of the asset can be measured reliably.

The acquisition cost of an intangible asset acquired in the scope of a business combination equals the fair value as per the date of the company acquisition. Following their initial recognition, intangible assets are carried at acquisition or production cost less any amortization and impairments accumulated. The useful life of intangible assets is defined as either finite or indefinite. Intangible assets with a finite useful life are amortized over their useful economic life and always assessed immediately given any triggering event that they may be impaired. The amortization period and amortization method in the case of an intangible asset with a finite useful life are examined no less often than at the end of every financial year.

MediGene has recognized licenses for patents and patents at acquisition cost. The licenses are amortized over the term of the patent. The capitalized patents and licenses pertain to the product candidate EndoTAG™-1.

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

Details on the development of intangible fixed assets can be found in the statement of fixed assets (p. 70 f).

Research and development projects arising from business combinations

Any acquired intangible asset with a finite useful life arising from business combinations is capitalized at acquisition cost. The acquisition cost of an intangible asset acquired in the scope of a business combination equals the fair value as per the date of the company acquisition. Following their initial recognition, intangible assets are carried at acquisition or production cost less any amortization and impairments accumulated. Regular amortization of an intangible asset takes place as from the date at which the respective drug candidate has obtained market approval. Until that date an annual impairment test is carried out. In addition, a further impairment test is carried out immediately given any triggering event.

Goodwill

Goodwill usually arising from the acquisition of other companies is assessed for impairment at regular intervals. For this purpose, a so-called impairment test according to IAS 36 is carried out.

Capitalization of research and development expenses

In accordance with IAS 38, development expenses must be capitalized depending on the possible outcome of development activities and in the cumulative presence of certain requirements. It is the management's opinion that the company's development projects do not meet all the criteria for capitalization as intangible assets required by IAS 38, the reasons being the uncertainty and regulatory imponderabilities inherent in drug development.

(10) Impairment of non-financial assets

Assets with a finite useful life

Assets with a finite useful life are subject to regular depreciation. They are tested for impairment if necessary if any relevant events or changes in circumstances show that the carrying amount may potentially no longer be recoverable. An impairment loss is reported to the extent that the carrying amount exceeds the recoverable amount. This is the greater of the fair value less costs to sell and the value in use.

Intangible assets not yet available for use

Drug candidates still pending market approval by the authorities are not yet available for use. As such, intangible assets based on drug candidates are not amortized regularly, but tested for impairment at least once yearly as per December 31. Potential causes of impairment can be found, for example, in preclinical and clinical research and development results. During the year, the transfer of intangible assets to Immunocore Ltd. as per September 30, 2008, gave rise to the need for an impairment test. This led to a one-time impairment. Please refer to item (37) for illustration and recognition of this impairment.

Assets with an indefinite useful life

Assets with an indefinite useful life are not subject to regular depreciation or amortization, but are tested for impairment annually. In addition, they are also tested for impairment in case any relevant events or changes in circumstances show that the carrying amount may potentially no longer be recoverable.

Goodwill

Goodwill is reviewed for impairment annually at least. Impairment testing is also carried out if any events or circumstances indicate that the carrying amount may be impaired.

Execution of impairment testing

For the purpose of an impairment test, the goodwill acquired in the scope of a business combination is allocated to the CGUs (cash-generating unit) that benefit from the synergetic effects starting on the date of acquisition. A CGU to which goodwill is allocated

- represents the lowest level within the company at which the goodwill is monitored for in-house company management, and
- is no larger than a segment based on the primary or secondary reporting format of the Group as defined in IAS 14 »Segment Reporting«.

As far as cash flows cannot be identified and assessed separately for the respective intangible assets, they are allocated to the defined CGUs at the lowest level.

The impairment is determined by assessing the recoverable amount of the CGU. The recoverable amount is the greater of the fair value less costs to sell and the value in use. If the carrying amount of the CGU exceeds the recoverable amount, first the allocated goodwill and then the intangible assets allocated to this CGU are written down to this amount. The value in use calculation is based on cash flow forecasts adopted by the management and a discount rate before tax which reflects current market anticipations regarding impact on interest and the specific risks inherent in the asset or the CGU. The planning period under review encompasses the development and approval stages, as well as the period of time commencing with market launch, for which patent terms of slightly over ten years are generally assumed, and the achievement of peak sales five years after market launch.

In case an individual asset generates cash inflow largely independent from those of other assets or other CGUs, the recoverable amount of this individual asset is determined for the execution of the impairment test. In case the carrying amount of this individual asset exceeds the recoverable amount, it is amortized to this value first.

(11) Financial assets

Initial recognition

Financial assets within the scope of IAS 39 are classified as financial assets – which are held at fair value and recognized as income – or as loans and receivables, held-to-maturity financial investments, or available-for-sale financial assets. The Group determines the classification of its financial assets upon initial recognition.

Financial assets are initially entered at fair value. The fair value of financial investments traded on organized markets is determined by the market price (bid price) listed as per the trading date. The fair value of financial investments for which there is no active market is determined using valuation methods. These include the use of the most recent business transactions between expert and independent business partners willing to enter into a contract, the comparison with the current fair value of another, largely identical financial instrument, the analysis of the discounted cash flow, and the use of other valuation methods.

Financial assets not included in the category of »assets at fair value through profit and loss« are initially recognized at fair value plus transaction costs. They are removed from the balance sheet if the rights to payments from the investment have expired and the Group has, for the most part, transferred all risks and rewards associated with ownership.

All purchases and sales of financial assets requiring delivery of the assets within a period determined by regulations or conventions of the respective market (regular way purchases) are recognized on the trading date, i.e. the date on which the Group commits to purchasing or selling the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

a. Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are comprised of financial assets held for trading purposes, which are designated to this category upon initial recognition. Derivatives embedded in host contracts are included separately if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivative financial instruments are assigned to this category. Overall, the assets classified in this category are carried in the balance sheet at fair value and any gains and losses are recognized through profit and loss.

b. Held-to-maturity investments

These are non-derivative financial assets with fixed or determinable payments and fixed maturities which the management has the intention and ability to hold to maturity. In the period under review, the Group did not have investments in this category.

c. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. These arise when the Group makes money, goods, or services directly available to a debtor with no intention of trading these receivables. These are included among current assets provided that their maturity does not exceed twelve months following the balance sheet date. Otherwise they are classified as non-current assets. Loans and receivables are included in the balance sheet under accounts receivable and in other assets.

d. Available-for-sale financial assets

These are non-derivative financial assets either designated as available for sale or not classified in any of the categories already described. They are classified as non-current assets if the management has no intention of selling them within twelve months after the balance sheet date. Following initial recognition, available-for-sale financial assets are held at fair value with unrealized gains and losses being recognized directly in shareholders' equity in other reserves. If financial investments are disposed of and/or impaired, the cumulative gain or loss previously recorded in shareholders' equity is transferred to the income statement. The shares in the Canadian company QLT, Inc. and the financial assets capitalized within the scope of the pension obligations are assigned to this category.

Impairment

As per every balance sheet date, an examination is carried out as to whether objective indications of a financial asset or a group of financial assets being impaired exist. In the event of shareholders' equity instruments classified as available for sale, a significant or lasting decline in the fair value of these instruments below their acquisition cost is considered when determining to what extent the shareholders' equity instruments are impaired.

With regard to outstanding amounts from customer receivables valued at amortized acquisition cost, the company initially determines whether there is any objective indication of significant financial assets being individually impaired or of insignificant financial assets being individually or jointly impaired. If the Group determines that there is no objective indication of impairment for an individually tested financial asset – significant or not – it incorporates the asset into a group of financial assets with comparable credit risk profiles and tests them jointly for impairment. Assets tested individually for impairment and for which a new or recurrent impairment is recorded are not included in a joint impairment assessment. Any impairment determined is recognized through profit and loss.

Derecognition

A financial asset (or, if applicable, part of a financial asset or part of a group of similar financial assets) is derecognized if one of the following requirements is met:

- The contractual rights to receive cash flows from a financial asset have expired.
- The Group has transferred its contractual rights to receive cash flows from the financial asset to a third party or has assumed a contractual obligation to immediately pay the cash flow to a third party as part of an agreement that meets the condition in IAS 39.19 (pass-through agreement) and has thereby either (a) transferred all the significant risks and rewards associated with owning the financial asset or (b) neither transferred nor retained all the significant risks and rewards associated with owning the financial asset, but instead transferred control of the asset.

Hedge accounting

The Group only has embedded derivatives. Hedge accounting is not shown in the balance sheet.

(12) Inventories

Inventories are stated at the lower of purchase cost and net realizable value in accordance with IAS 2 »Inventories«. In doing so, the acquisition costs are fundamentally determined on the basis of direct costs including incidental acquisition costs.

(13) Cash and cash equivalents

Cash and cash equivalents include cash on hand as well as bank deposits with an original maturity of up to three months. These are accounted for in the balance sheet at their present value. In order for a financial investment to be classified as a cash equivalent, it must be possible to easily convert it into a particular cash amount. In addition, it must only be subject to insignificant value fluctuations.

(14) Shareholders' equity

Ordinary shares are classified as shareholders' equity. Costs that are directly attributable to the issue of new shares are included in shareholders' equity net of tax as a deduction from the issue revenue.

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

As a reward for the work performed, employees of the Group – including members of the Executive Board – receive share-based payments in the form of shareholders' equity instruments. For this purpose, the Group has set up a share-based compensation plan that is fulfilled by issuing new shares. These shareholders' equity instruments such as options and convertible bonds granted to employees are accounted for in accordance with IFRS 2. The costs arising from granting these instruments are measured at fair value at the time they are granted. The fair value of stock options which MediGene grants as compensation for work performed by employees is recorded as an expense. The instruments are valued with the help of the binomial model. This model takes into consideration freeze periods, exercise thresholds, the volatility of the underlying instrument, and interest rates among other things. The entire expense to be reported over the vesting period of the options is comprised of the fair value of the options and the time they were granted. The expenses resulting from the granting of shareholders' equity instruments and the corresponding rise in shareholders' equity are recognized over the period in which the exercise and performance conditions must be met (vesting period). This period ends on the first possible exercise date, i.e. the date on which the relevant employee is irrevocably entitled to subscribe. In individual cases, the benefit conditions have already been fulfilled upon issue of the stock options. In those cases the expense is recorded upon granting of the options. No expenses are recognized for forfeited compensation rights.

The estimated number of options expected to be exercised is examined on each balance sheet date. The effects of any possible changes to the original estimates are included in the income statement and accounted for by carrying out the respective adjustment to shareholders' equity over the remaining vesting period.

When exercising stock options, 1 € per option is reported in the share capital with the remaining amount shown in capital reserves.

For the convertible bonds issued to employees through 2006, the nominal amount of 1 € paid is accounted for 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. Upon conversion, 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 – i.e. the difference between the conversion price and the nominal amount – is recognized in capital reserves.

The dilution effect of the outstanding stock options and convertible bonds is considered in the calculation of net loss per share as additional dilution.

(16) Debt

Initial recognition

Financial liabilities as per IAS 39 are classified as financial liabilities at fair value through profit and loss or as loans. The Group determines the classification of its financial liabilities upon initial recognition and assesses them at fair value plus directly attributable transaction costs in the case of loans.

Subsequent measurement

Financial debt classified as loans is valued in subsequent periods at amortized acquisition cost. Every difference between the net loan proceeds (after deducting transaction costs) and the amount repayable is recognized in the income statement over the term of the loan using the effective interest rate method.

The fair value of the debt components 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 acquisition cost until the conversion is carried out or the repayment becomes due. The remaining portion of the revenue constitutes the value of the conversion right. This is included in shareholders' equity after deducting income tax effects.

Financial liabilities recognized at fair value through profit and loss are comprised of embedded derivatives. Gains and losses are recognized through profit and loss.

(17) Provisions

Provisions are formed in accordance with IAS 37 »Provisions, Contingent Liabilities, and Contingent Assets« provided that there is a current obligation to third parties arising from a past event that will probably lead to the outflow of resources in the future and that this amount can be estimated in a reliable manner. The cost of forming the accrued expense is reported in the income statement. Provisions for obligations that are not likely to impact on assets in the subsequent year are formed in the amount of the present value of the expected outflow of assets. The valuation of provisions is examined on every closing date. Provisions in foreign currencies are translated as per the closing date.

(18) Pension obligations

Pension obligations are accounted for in accordance with IAS 19 »Employee Benefits«. There are various pension plans within the Group. This includes both defined benefit and defined contribution plans.

A defined benefit plan is a pension plan that defines the pension benefits that an employee will receive upon retiring. The amount normally depends on one or more factors such as age, length of service, and salary. The obligation recognized in the balance sheet for defined benefit plans equals the present value of the defined benefit obligation (DBO) as per the balance sheet date less the fair value of the plan assets that arise from liability insurance, adjusted for cumulative unrecognized actuarial gains and 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 calculated by discounting the expected future cash outflows using the interest rate of the highest-quality corporate bonds. These must be denominated in the currency in which the benefits are also paid, and their terms to maturity must equal those of the pension obligation. Actuarial gains and losses derived using empirically established adjustments and changes to actuarial assumptions are recognized in income over the employees' expected remaining period of service if the balance of the cumulative, unrecognized actuarial gains and losses for each individual plan exceed 10% of the defined benefit obligation as per the end of the previous reporting period 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 to an independent entity (fund). With these plans, the Group has no legal or factual obligation to make additional contributions if the fund holds insufficient assets to pay all employees the pension claims for their service in current and previous financial years. The contributions are recognized in personnel expenses upon maturity. Prepaid contributions are recognized as assets to the extent that a right to a refund or a reduction of future payments exists.

Past service expenses are immediately recognized in income unless the changes to the pension plan are dependent on the employee remaining with the company for a set period of time (vesting period). In this case, the past service expenses are recognized through profit and loss throughout the vesting period using the straight-line method.

(19) Taxes

Actual tax

Actual tax assets and liabilities are measured using the amount expected to be repaid by or paid to tax authorities. The amount is calculated on the basis of the tax rates and laws applicable as per the balance sheet date.

Actual taxes pertaining to items recognized directly in sharehol ders' equity are not posted in the income statement, but rather in shareholders' equity.

Deferred taxes

Deferred taxes are recognized in accordance with IAS 12 »Income Taxes« using the liability method for all temporary differences between the tax base of assets/liabilities and their carrying amounts in the financial statements according to IFRS. Deferred taxes are valued using the tax rates (and regulations) applicable on the balance sheet date or those that are widely legally adopted. In addition, these are expected to be legally applicable at the time when the deferred tax receivable is recognized or the deferred tax liability is settled.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit of loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, as yet unused tax loss carryforwards and unused tax credits to the extent that taxable income is likely to be available against which the deductible temporary differences and the as yet unused tax loss carryforwards and tax credits can be used. Exceptions are:

- Deferred tax assets from deductible temporary differences arising from the initial recognition of an asset or debt from a business transaction that is not a business combination and which, at the time of the transaction, impacts neither the net income for the period using German GAAP nor the taxable income, and
- Deferred tax assets from deductible temporary differences in connection with investments in subsidiaries, associated companies, and shares in joint ventures provided that the temporary differences are not likely to reverse in the foreseeable future or it is probable that insufficient taxable income will be available against which the temporary differences can be used.

The carrying amount of deferred tax assets is examined on every balance sheet date and reduced to the extent that it is no longer likely that sufficient taxable income will be available against which the deferred tax asset can be used, at least in part.

Deferred taxes pertaining to items recognized directly in shareholders' equity are also recognized in shareholders' equity.

Deferred tax assets and liabilities are measured using tax rates expected to be valid for the period in which an asset is realized, or a debt is settled. This is based particularly on country-specific tax rates and laws applicable as per the balance sheet date. Deferred tax assets and liabilities are offset against one another if the tax assets and income taxes pertain to the same taxable entity and are levied by the same tax authority.

(20) Leases

Lease agreements in which the Group is the lessee and a significant share of the risks and rewards associated with owning the leasing object remain with the lessor are classified as operating leases. Payments made in connection with operating leases are recognized in the income statement over the period of the lease using the straight-line method.

There are no leases for tangible fixed assets in which the Group is the lessee and bears the significant risks.

(21) Revenue recognition

Revenue is recognized when the economic benefit is likely to flow to the Group and the amount of the income can be determined reliably. In the reporting period, MediGene posted revenue from product sales, milestone and license fee payments, research and development payments from partners, research grants, and other income.

Revenue from product sales and recurring license fee payments

Revenue from product sales are realized as soon as the risks and rewards associated with ownership have been carried over and the product or active ingredient has been delivered to the buyer. Moreover, MediGene receives license fee payments from the product sales generated by the licensee in the market, which are invoiced on a quarterly basis.

Revenue from advance, milestone, and non-recurring license fee payments

Upfront payments which MediGene receives from pharmaceutical partners upon concluding a new contract are accrued on the liabilities side in accordance with IAS 18 »Revenue«. These are collected in installments once certain approval milestones are reached. This is posted in the income statement under »product revenue and royalties«. Non-recurring license fee payments which entail all risks and rewards being transferred to the licensee are recognized immediately as income.

MediGene receives milestone payments for the official approval of applications submitted to authorities, the market approval of products by the authorities, the market launch of new products by partners, the achievement of certain contractually agreed annual revenue targets, and the achievement of research and development milestones defined in cooperation agreements. No delineation is needed in these cases. Accordingly, these payments are recognized immediately as income provided that no additional payments have been agreed.

R&D payments from partners and other income

Income from research cooperations is collected as income in accordance with IAS 18 if the contractually agreed targets are reached. Contractually agreed payments and scheduled payments not linked to a future service are collected as income on the condition that the cooperation partner confirms that the contractual agreements have been met. The grants are recognized through profit and loss once the expense is recognized.

Interest income

Interest income is recognized when interest becomes payable.

(22) Public grants

Income from public research grants is accounted for in accordance with IAS 20 »Accounting for Government Grants and Disclosure of Government Assistance«. MediGene receives pro-rated grants when expenses arise. The grants are recognized as income once the expense is recognized.

(23) Research and development expenses

Research and development expenses are accounted for in accordance with IAS 38 »Intangible Assets«. Research and development expenses are recognized as expenses in the period in which they arise. These expenses include personnel expenses, consultancy fees, material and laboratory expenses, services, legal fees, and other allocated costs such as rent and electricity, as well as depreciation of laboratory equipment. In the management's opinion, the development expenses do not meet all the criteria for recognition in accordance with IAS 38. These costs are therefore recognized as expenses in the period in which they arise.

(24) Earnings per share

Earnings per share are determined in accordance with IAS 33 »Earnings per share«.

Basic and actual 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«. The company applied the indirect method when determining the cash flows from operating activities and classified these into operating, investing and financing activities.

(26) Segment reporting/business units

Segment reporting must be based on the Group's internal organization and reporting structure in accordance with IAS 14 »Segment Reporting«. A business unit is a group of assets and operating activities that provides products or services entailing risks and rewards that differ from those of other business segments. A geographical segment provides products within a certain business environment entailing risks and rewards that differ from other business environments.

C) Notes on the consolidated income statement

The income statement was prepared in accordance with the cost of sales method.

(27) Total revenue

The total revenue in 2008 amounted to 39,606 T€ (2007: 23,877 T€). Most of this amount was realized from product sales and royalties from the drug Eligard® in Europe. A small portion of the revenue generated came from product sales of Veregen® in the US In addition to these proceeds, revenue also included a milestone payment of 3.0 million € by the partner Astellas Pharma Europe Ltd. (hereinafter »Astellas Pharma«), Staines, United Kingdom, for reaching the 75 million € annual revenue threshold with Eligard®. In the previous year, MediGene had received a milestone payment of 756 T€ for the market launch of the six-month Eligard® product.

The other operating income largely results from proceeds for the sale of the rights to Oracea®, which generated revenue of 4.4 million €. MediGene also received payments from cooperation partners and grants.

Total revenue

In T€	2008	2007	Change
Product revenue and royalties	**30,507**	21,302	43%
Milestones	**3,000**	756	>200%
Product sales	**33,507**	**22,058**	**52%**
Income from R&D cooperations	**623**	1,057	-41%
Research grants	**914**	623	47%
Other income	**4,562**	139	>200%
Total	**39,606**	**23,877**	**66%**

(28) Cost of sales

Most of the costs of sales were accrued for the commercialization of the drug Eligard® and, to a lesser extent, for Veregen®. These amounted to 26,926 T€ (2007: 18,493 T€). The costs of sales are split between the purchase of products and the share held by QLT USA, Inc. (hereinafter »QLT«), Fort Collins, Colorado, USA, in the sales proceeds, as well as a milestone payment to QLT of 3.0 million USD (2.1 million €) for reaching the 100 million USD mark in terms of annual revenue from Eligard®. In the same period of the previous year, MediGene made a milestone payment of 2.0 million USD (1.5 million €) to QLT for the market launch of the six-month Eligard® product.

Cost of sales

In T€	2008	2007	Change
Cost of sales	13,368	10,053	33%
Royalities	11,442	6,937	65%
Milestones	2,116	1,503	41%
Total	26,926	18,493	46%

(29) Selling expenses

Selling expenses consist entirely of expenses for business development. These include personnel expenses, consulting fees, market surveys, advertising material, and other services. No additional sales activities for products were conducted in the period under review.

Selling expenses

In T€	2008	2007	Change
Personnel expenses	1,608	1,422	13%
Consultancy	370	259	43%
Office rent and utilities	117	96	22%
Depreciation	161	240	-33%
Other	507	561	-10%
Total	2,763	2,578	7%

(30) General and administrative expenses

The 20% year-on-year rise in administrative expenses was the result of expenses for preparing a prospectus for the admission of shares already issued for stock exchange trading, as well as the higher expenses from employee stock options in 2008 and expenses arising in the search for investors for the spin-off of the mTCR program.

General and administrative expenses

In T€	2008	2007	Change
Personnel expenses	3,598	3,263	10%
Consultancy	1,885	1,008	87%
Office rent and utilities	399	368	8%
Depreciation	135	136	-1%
Other	1,704	1,673	2%
Total	7,721	6,448	20%

(31) Research and development expenses

R&D expenses fell by 2% compared to the previous year. The largest part of R&D expenses pertains to external costs for clinical and preclinical development.

Research and development expenses

In T€	2008	2007	Change
Third party expenses	10,956	10,954	0%
Personnel expenses	10,853	10,099	7%
Patents and Licenses	1,183	1,480	-20%
Office rent and utilities	1,155	1,215	-5%
Laboratory material costs	808	994	-19%
Depreciation	877	984	-11%
Other	1,633	2,299	-29%
Total	27,465	28,025	-2%

(32) Financial result

Interest income was generated from the investment of available cash. Interest expenses resulted from the interest on outstanding convertible bonds. All interest payments are recognized as expenses in accordance with IAS 23.

The contract concluded with Astellas Pharma for the marketing of Eligard® includes an embedded derivative as the contract is denominated in US dollars, which is not the functional currency of either contractual party. As a result of an increase in expected purchase orders compared with the previous year, and the loss of the US dollar against the euro during the reporting period, a book loss of 253 T€ (2007: 812 T€) from this financial instrument was realized as per reporting date December 31, 2008.

Currency exchange losses arose from the translation of the US dollar and the British pound into euro.

As per the closing date, December 31, 2008, MediGene carried out an impairment test for the financial assets available for sale. Due to the substantial and lasting impairment, a value adjustment affecting net income of 352 T€ (2007: 555 T€) was made.

Financial result

In T€	2008	2007	Change
Interest income	1,452	2,041	-29%
Interest expenses	-2	-47	-96%
Sub-total	1,450	1,994	-27%
Losses from embedded derivatives	-253	-812	-69%
Foreign currency losses	-2,035	-305	>200%
Expenses from financial assets	-352	-555	-37%
Total	-1,190	322	>-200%

(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€	2008	2007	Change
Net loss	-30,790	-29,876	3%
Interest convertible bonds	2	4	-50%
Result adjusted with effects from convertible bonds	-30,788	-29,872	3%

Weighted average number of shares

In No.	2008	2007	Change
Weighted average number of shares	34,008,289	31,541,103	8%
Dilution			
Stock options	125,179	201,589	-38%
Convertible bonds	0	15,621	–
Weighted average number of shares (without own shares) with effects from dilution	34,133,468	31,758,313	7%

Only 125,179 of the altogether 1,487,318 stock options and convertible bonds had a dilutive effect, since the exercise price of most of the stock options and convertible bonds was below the average share price for the year 5.07 € (Deutsche Börse; XETRA closing price).

The fully diluted net loss per share equaled the actual loss per share at the time of reporting, as the conversion of ordinary share equivalents would have an anti-dilution effect. As per the closing date, 82,080 new shares issued from conditional capital by exercise of stock options and convertible bonds were entered on the Commercial Register.

(34) Personnel expenses

The expense items in the income statement include the following personnel expenses:

Personnel expenses

In T€	2008	2007	Change
Salaries and wages	12,824	11,844	8%
Social security costs	1,577	1,682	-6%
Pension costs			
Defined contribution plans	88	96	-8%
Defined benefit plans	111	69	61%
Stock options and convertible bonds issued to directors and employees	1,135	479	137%
Other	324	613	-47%
Total	16,059	14,783	9%

Personnel expenses by segment

In T€	2008	2007	Change
Specialty Pharma	1,428	1,366	5%
Biopharma	9,528	8,820	8%
Other	5,103	4,597	11%
Total	16,059	14,783	9%

Employees by function

	Dec. 31, 2008	Dec. 31, 2007	Change
Business development and general administration	32	43	-26%
Research and development	101	129	-22%
Total	133	172	-23%

With the spin-off of the mTCR technology, Immunocore Ltd. acquired the employees of MediGene Ltd. as per October 1, 2008. This lowered the average number of employees in 2008 to a total of 150 (2007: 159). Personnel expenses in the period under review rose by 9% to 16,059 T€ (2007: 14,783 T€). This is attributable to both the appointment of a fourth Executive Board member as per April 1, 2008 and a bonus and compensation payment for an Executive Board member leaving the company prematurely.

(35) Loss resulting from spin-off

Within the foundation of Immunocore Ltd., MediGene Ltd. made a non-cash capital contribution consisting mainly of intangible assets (see item (6) and (43)). In connection with this foundation, an impairment test for the CGU 2 pursuant to IAS 36 was carried out as well (see item (37)).

All in all, a loss of 6,431 T€ accrued, which is composed as follows:

Loss resulting from spin-off

In T€	Dec. 31, 2008
Impairment of intangible assets	5,014
Impairment of goodwill	929
Book loss of transferred assets	488
Total	6,431

(36) Depreciation and impairment of property, plant, and equipment

In line with the use of the cost of sales method, the amortization, depreciation and impairment of intangible and tangible assets is not shown separately in the income statement. Instead, it is allocated to the general selling and administrative expenses or to research and development expenses. The extraordinary amortization came about in the course of the spin-off of the mTCR program.

Depreciation and impairment of property, plant, and equipment

In T€	2008	2007	Change
Scheduled depreciation			
on fixed assets	570	676	-16%
on intangible assets	603	683	-12%
Sub-total	1,173	1,359	-14%
Impairment			
on intangible assets	5,014	0	–
on goodwill	929	0	–
Total	7,116	1,359	>200%

(37) Impairment of goodwill and intangible assets not yet available for use

The carrying amounts of goodwill and intangible assets not yet available for use as at December 31, 2008 are allocated to the CGUs as follows:

Carrying amounts for goodwill and intangible assets

In T€	MediGene Ltd.				MediGene, Inc.	
	CGU 1		CGU 2		CGU 3	
	2008	2007	2008	2007	2008	2007
Carrying amount of goodwill	1,864	2,477	0	1,007	9,226	9,226
Carrying amount of intangible assets	20,014	26,601	3,225	10,805	–	–

The carrying amount of goodwill as at reporting date December 31, 2008 amounted to 11,090 T€ (December 31, 2007: 12,710 T€), and were allocated to three cash-generating units (CGUs) altogether. 1,864 T€ (2007: 3,484 T€) of this amount are allocated to CGUs 1 and 2 which originate from the acquisition of the UK subsidiary MediGene Ltd. This portion of the goodwill is reported in British pounds, and has decreased due to the devaluation of the British pound compared with the euro on the one hand, and the impairment affecting net income resulting from the foundation of Immunocore Ltd. A goodwill of 9,226 T€ (2007: 9,226 T€) results from the acquisition of MediGene, Inc. in 2001. This goodwill reported in euro results from CGU 3.

The carrying amount of the intangible assets held by the subsidiary MediGene Ltd. reported in British pounds has decreased from 37,406 T€ to 23,239 T€, due to exchange rates and the impairment affecting net income. These assets are allocated to CGUs 1 and 2.

The development projects and technologies which form the basis of intangible assets not yet available for use are allocated to the CGUs as follows:
◦ RhuDex™ (CGU 1)
◦ Early development projects (CGU 2)
◦ oHSV (CGU 3)

There were three occasions for an impairment test during the financial year. Two of them became necessary due to special incidences, and have already been considered in the quarterly financial statements as per September 30, 2008. The third occasion was the impairment test to be carried once yearly as per December 31, 2008. The background and the results of these impairment tests are explained below:

Results and backround of impairment tests

a) Impairment tests as per September 30, 2008 as a result of special circumstances

RhuDex™

An ongoing phase I clinical trial with the new formulation of the drug candidate RhuDex™ was put on hold in July 2008. A healthy volunteer in the trial suffered a heart attack a few days after administation of the drug. After receiving hospital treatment he collapsed and died several days later at home. The autopsy showed that the volunteer had died of acute myocardial re-infarction as a consequence of coronary thrombosis. The findings clearly prove a severe impairment of cardiac function in this patient that had developed for many years. From MediGene's point of view, this is backing the assessment that a causal correlation between the death of the patient and the administration of the trial medication RhuDex™ is unlikely. In cooperation with the British drug regulatory authority MHRA (Medicines and Healthcare Products Regulatory Agency), MediGene prepared a number of additional laboratory tests. The in-vitro studies currently being carried out will examine the potentially dangerous interaction of RhuDex™ with arteriosclerotically altered vessels.

This incident and the resulting delay in the project's progress necessitated a review of the RhuDex™ value in use. The basic assumptions listed below were reviewed, with special regard to a delay in market launch. The delay in market launch by approximately two years used in the model of the sensitivity analysis showed a clear reduction of the value in use but no impairment.

mTCR-Technologie

The mTCR technology based on soluble, monoclonal T-cell receptors which was previously developed by the UK subsidiary MediGene Ltd., was incorporated in the newly founded company Immunocore Ltd., in which MediGene Ltd. holds a 39.09% share, as per September 30, 2008.

An impairment test for CGU 2 was carried out in the course of the incorporation of the intangible assets in Immunocore Ltd. For the intangible assets remaining with MediGene Ltd., the basic assumptions as described below were applied. For the incorporated assets, the prospective achievable sales prices were applied. The recoverable amount of CGU 2 thus determined undercut the carrying amount by 5,943 T€. Due to this impairment, the goodwill allocated to the CGU was entirely written off; in the remaining amount the intangible assets to be transferred were written off affecting net income.

b) Annual impairment test as per December 31, 2008

The recoverable amount is estimated on the basis of value in use calculations using cash flow models. The main assumptions are made up of the basic assumptions as well as the assumptions specific to projects, which can be described as follows:

Basic assumptions for measuring the value in use

Approval and marketing of drugs in the three largest pharmaceuticals markets worldwide, i.e. USA, Europe, and Japan are taken as a basis for the cash flow models. The cash flow forecasts used include assumptions regarding the probability of market entry, future competition, project progress, the product profile, and the market share of the future drug candidate. Regarding the assumptions about market growth, MediGene expects an annual increase by 1% for the groups of patients that form the basis of CGU 1 and 2. The forecast period usually spans the expected term of the patent. There are valuation uncertainties regarding the following assumptions that form the basis of the calculation of the fair value of both CGUs:
◦ probabilities of market entry
◦ progress of the project
◦ expected market share

Probabilities of market entry

MediGene has made assumptions on the likelihood of market entry for the individual drug candidates. The necessity for those assumptions arises from the characteristic drug development risks. These risks may vary depending on the class of substance and active ingredient, as well as the field of indication. Accordingly, the management has applied the customary probability of success within the industry for its valuation models. In addition, project-specific assumptions were added to these valuations.

Progress of the project

According to statistics of the pharmaceuticals industry, the development of a drug generally takes 10–15 years. This period of time is divided into successive phases. Main factors which have an influence on the development time are the results regarding effects and side-effects of a drug candidate obtained during the individual development phases. The assumptions regarding each project made by MediGene are based on the current status of the project, the results obtained so far, and the empirical data regarding indication and class of drugs.

Expected market share

The management compares the data available for the development project, the target profile, and the development data as far as accessible and on this basis makes an assessment of the expected market share.

Project-specific assumptions

In T€	MediGene Ltd.		MediGene, Inc.
	CGU 1	CGU 2	CGU 3
Planning period in years	19	18	16
Project progress discount rate in %	29	48	36

Based on these assumptions, no further necessity for impairment was determined.

Sensitivity of assumptions made

In the basic assumptions made for determining the value in use of CGUs 1, 2, and 3, reasonable judgment shows that changes may occur that would cause the carrying amount of the respective CGU to exceed the value in use. The actual value in use of CGU 1 exceeds its carrying amount by approximately 22.1 million €, that of CGU 2 by approximately 5.3 million €, and that of CGU 3 by approximately 3.3 million €.

In order to analyze the effects of basic or project-specific assumptions on the value in use, MediGene made the following sensitivity calculations on CGU level for the research and development projects assessed:

CGU 1

Since this CGU possesses the highest potential in terms of value, MediGene made different sensitivity analyses. The first consideration examines the impact of a delayed market approval for the drug candidate RhuDex™. Even a postponement of the planned market approval by up to three years would not cause the value in use to drop below the carrying amount of the CGU.

The second approach examines the impact of patent scope and patent term, and, consequently, market exclusiveness. In case a second patent already applied for and the corresponding patent extensions should, contrary to expectations, not be granted, this would not cause the value in use to drop below the carrying amount of the CGU. In this consideration the market entry of generic competitors was simulated for the time following the expiration of the original patent.

A combination of the aforementioned scenarios, however, would cause the value in use to approximate the carrying amount.

A further consideration analyzed the impact of a fifty percent reduction of the planned peak market share on the sales expectations, and, consequently, the value in use. In this case, the value in use exceeds the carrying amount.

CGU 2

For CGU 2 a combined sensitivity of a possible postponement of the planned approval by four years and lower patent protection was calculated. These changed assumptions do not cause the value in use to drop below the carrying amount of CGU 2.

CGU 3

For CGU 3 the impact of a postponement by two years of the planned approval for the underlying early-stage drug candidate on the recoverable amount was examined. In this case, the value in use would approximate the carrying amount of CGU 3.

(38) Impairment of intangible assets

As per the closing date December 31, 2008, there was no indication of impairment for the EndoTAG™ patents and licenses recorded in the balance sheet. MediGene applies scheduled amortization to these assets during the term of the underlying patents.

(39) Cost of materials and services received

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

Material costs and cost of services

In T€	2008	2007	Change
Cost of sales	26,926	18,493	46%
Other materials	808	995	-19%
Sub-total	27,734	19,488	42%
Cost of services	10,956	10,955	0 %
Total	38,690	30,443	27%

The costs of sales primarily comprise procurement expenses for the Eligard® product and – to a lesser extent – the active ingredient for Veregen®, as well as royalties to partner. The cost of materials include expenses for laboratory materials and chemicals amounting to 808 T€ (2007: 995 T€). The services received totaling 10,956 T€ (2007: 10,955 T€) are made up of the following items: conducting clinical trials 4,955 T€ (2007: 4,954 T€), market approval 502 T€ (2007: 378 T€), production services 2,049 T€ (2007: 2,920 T€), and pre-clinical development services 3,450 T€ (2007: 2,703 T€).

D) Notes on the balance sheet

ASSETS

(40) Property, plant, and equipment

A detailed composition and development of property, plant, and equipment can be found in the statement of fixed assets (p. 70 f).

(41) Intangible assets

Intangible assets declined from 46,607 T€ to 28,510 T€. This decline is primarily attributable to the return of the Oracea® license and the spin-off of the mTCR technology. In addition, the regular amortization of licenses and the exchange rate-based impairment of intangible assets attributable to the subsidiary MediGene Ltd. contributed to the reduction in intangible assets. These assets carried in British pounds originate from the RhuDex™ projects, as well as other projects in the research stage.

MediGene has not capitalized any self-constructed intangible assets.

(42) Financial assets

Available-for-sale financial assets are comprised of shares in the Canadian partner company QLT, Inc. and assets related to pension agreements that do not qualify as plan assets. The financial assets were valued using the published market prices from an active market as per the closing date December 31, 2008. Accordingly the financial assets available for sale were subjected to an impairment test as per reporting date, and depreciated affecting net income as a consequence of the substantial and lasting impairment.

Financial assets

In T€	Dec. 31, 2008	Dec. 31, 2007	Change
Listed shares of QLT, Inc.	398	703	-43%
Listed shares in funds	142	188	-24%
Total	540	891	-39%

(43) Investment in an associate

The Group held a 39.09% share in Immunocore Ltd. at the end of the period under review. Immunocore Ltd. has an irregular financial year, which begins on October 1 of the respective reporting year. Immunocore Ltd. prepared corresponding interim financial statements to December 31, 2008 for inclusion in the consolidated financial statements. The acquisition cost of the investment acquired on September 30, 2008 totaled 4,298 T€.

This amount is made up of the cash contribution to Immunocore Ltd. amounting to 3,044 T€, the value of the patents transferred, i.e. 1,005 T€, and the expenses of acquisition of 249 T€. The carrying amount of the share in Immunocore Ltd. decreased to 3,269 T€ as per December 31, 2008.

Investment in an associate

In T€	Dec. 31, 2008
Share of the associate´s balance sheet:	
Current assets	2,834
Non-current assets	300
Current liabilities	-161
Non-current liabilities	0
Net assets	2,973
Share of the associate´s revenue and profit	
Revenue	89
Profit	-256

(44) Inventories

As per the balance sheet date, only unimpaired inventories for the drug Eligard® existed. These amounted to 2,185 T€ (2007: 568 T€). There was no impairment of lower sales price.

(45) Other current assets and trade accounts receivable

Other current assets and trade accounts receivable

In T€	Dec. 31, 2008	Dec. 31, 2007	Change
Accrued royalties	3,750	2,373	58%
Research grants incl. R&D tax credit	637	1,127	-43%
VAT receivable	333	565	-41%
Rent deposit	340	359	-5%
Prepaid expenses with a term <1 year	681	820	-17%
Other	36	143	-75%
Total other assets	5,777	5,387	7%
Trade accounts receivable	3,117	357	>200%

The trade accounts receivable and other current assets are due as follows:

Ageing analysis of trade accounts receivable and other current assets

		Maturity					
In T€	impaired	up to 30 days	30–180 days	180–360 days	2–5 years	>5 years	Total
Balance at Dec. 31, 2008							
Other current assets	0	4,133	970	674	0	0	5,777
Trade accounts receivable	0	3,028	19	70	0	0	3,117
Total	0	7,161	989	744	0	0	8,894
Balance at Dec. 31, 2008							
Other current assets	0	4,788	170	360	69	0	5,387
Trade trade receivable	0	357	0	0	0	0	357
Total	0	5,145	170	360	69	0	5,744

(46) Cash and cash equivalents

Cash and cash equivalents

In T€	Dec. 31, 2008	Dec. 31, 2007	Change
Cash and cash equivalents < 3 months	25,101	46,511	-46%
Total	25,101	46,511	-46%

Cash and cash equivalents were invested in the form of financial investments with a term of less than three months. The carrying amount of cash and cash equivalents corresponds to their fair value. The effective interest rate for short-term bank deposits is variable and ranged from 1.65% to 4.80% in the period under review. The change in cash and cash equivalents from the previous year is shown in the cash flow statement.

LIABILITIES

(47) Shareholders' equity

a) Subscribed shares

As per December 31, 2008, the subscribed capital rose from 33,946 T€ to 34,029 T€. This is divided into 34,028,561 no-par value ordinary shares, 100% of which were issued and tradable as per the balance sheet date. The 3,084,282 shares newly issued at the beginning of 2007 for a contribution in cash to Santo Holding (Deutschland) GmbH, Stuttgart, Germany, were approved for stock exchange trading on May 8, 2008.

In February 2007, 2,062,040 new shares were placed with institutional investors in Europe as part of a capital increase for cash. The issue price was 6.10 € per share. Moreover, MediGene issued 3,084,282 new shares from authorized capital to Santo Holding (Deutschland) GmbH in the scope of a private placement in September 2007 at a price of 5.05 € per share.

Subscribed capital

	Number of shares	Share capital in T€	Capital reserves in T€	Total in T€
Balance at Jan. 1, 2007	**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**
Employee stock option plan				
Value of services provided			1,132	1,132
Proceeds from shares issued	78,880	79	161	240
Employee convertible bond plan				
Value of services provided			3	3
Proceeds from shares issued	3,200	4	10	14
Balance at Dec. 31, 2008	**34,028,561**	**34,029**	**335,973**	**370,002**

The 82,080 shares issued within the scope of the stock option and convertible bonds programs were entered on the Commercial Register on February 13, 2009.

b) Stock options

Shareholders' equity instruments such as options and convertible bonds issued to employees are valued and balanced in accordance with IFRS 2.

Stock options are issued to executives and employees. They are initially issued within one year of joining the company. The exercise price per option on the issue date equals the higher of the market price or the average closing price of the last 60 trading days on the XETRA trading system of the German Stock Exchange plus a premium of 20%. The holders of subscription rights may exercise their option rights no earlier than the expiration of a vesting period of two years starting with the allotment date of the respective subscription right. The options have a contractual maturity term of ten years. The Group has no legal or constructive liability whatsoever to buy back options, in cash or otherwise.

In 2008, stock options were issued in March and December. Compared to the option program from 2007 and that of December 2008, MediGene suspended its right to forfeit all option rights in the March 2008 program on the grounds of employment being terminated for personal or behavioral reasons or as a result of employment being terminated by an option right holder where the waiting period has not yet expired when the contract is terminated.

In the year under review, 550,533 stock options were issued from conditional capital XVIII (2007: 242,718 stock options from conditional capital XVI).

The average exercise price for the options issued in 2008 is made up of the March and December programs and was 4.27 € and 3.89 €. The options issued but not accepted in 2008 pertain to the December program, with the term for acceptance beginning on December 18, 2008 and ending January 23, 2009.

Total changes in stock options outstanding

	2008		2007		2006	
	Average exercise price in € per share	Number	Average exercise price in € per share	Number	Average exercise price in € per share	Number
Stock options outstanding, Balance at Jan. 1	**7.31**	**988,026**	**7.30**	**801,639**	**6.88**	**701,429**
Issued	**4.27**	**349,371**	5.88	242,718	10.22	118,176
Issued, in 2008 not accepted	**3.89**	**201,162**	–	–	–	–
Exercised	**2.93**	**-78,880**	2.93	-8,944	4.79	-4,460
Forfeited	**7.13**	**-1,371**	8.38	-14,675	11.39	-13,506
Lapsed	**5.35**	**-17,200**	2.93	-32,712	0	0
Stock options outstanding, Balance at Dec. 31		**1,441,108**		**988,026**		**801,639**
Average exercise price in € per share		**6.23**		7.31		7.30

During the period under review, stock options were regularly exercised. The weighted average exercise price in the 2008 financial year was 2.93 €. Of the stock options issued and not accepted in 2008, 193,145 options were accepted up to the expiration of the deadline on January 23, 2009.

Instruments are valued using a binomial model. The following parameters are taken into consideration:

Valuation parameters stock option plan

	2008	2007	2006
Vesting period	**2 years**	2 years	2 years
Option duration	**10 years**	10 years	10 years
Hurdle rate	**120%**	120%	120%
Volatility	**42%/51%**	42%	40%
Risk-free interest rate	**3.36%/3.93%**	4.31%	3.84%

The expected volatility was determined on a historical basis and is based on the floating 250-day average at the time when the options are issued. The risk-free interest rate equals the yield of a hypothetical zero-coupon bond excluding any risk of default with a 10-year term and was 3.93% in the issue month of March 2008 and 3.36% in December 2008 (source: Deutsche Bundesbank (German Central Bank)). The fair value of the stock options issued during the financial year was 1.99 € per option in March 2008 and 1.94 € in December 2008 (2007: 2.45 €). In 2008, expenses for stock-based payment types totaling 1,132 T€ (2007: 470 T€) were posted in accordance with IFRS. These were composed as follows:

Expenses stock option plan

In T€	2008	2007
Expenses stock option plan		
2005	**0**	92
2006	**56**	198
2007	**286**	180
2008	**790**	0
Total	**1,132**	**470**

As per December 31, 2008, stock options outstanding were divided up according to conversion price, number of options issued, remaining term to maturity, and options that can still be exercised:

Conversion price and contractual life of outstanding stock option plan

Conversion price in €	Number of outstanding stock options	Remaining contractual life	Number of exercisable stock options
5.35	12,900	1	12,900
5.53	9,460	1	9,460
6.48	166,367	1	166,367
4.60	45,179	5	45,179
4.68	80,000	5	80,000
7.69	60,237	6	60,237
8.10	40,000	6	40,000
12.37	131,062	7	131,062
10.22	111,341	8	111,341
5.88	234,029	9	–[1)]
4.34	298,536	10	–[1)]
3.89	251,997	10	–[1)]
–	**1,441,108**	–	**656,546**

[1)] Stock options issued in 2007 and 2008 could not be exercised as of December 31, 2008.

The weighted average remaining term of stock options outstanding is 7.52 years.

c) Convertible bonds

Convertible bonds outstanding are accounted for as follows: The fair value of the debt component and the shareholders' equity conversion component are each determined as per the issue date of the convertible bond. The fair value of the debt component included in non-current liabilities is calculated using the market interest rates for equivalent non-convertible bonds. The residual value, which shows the value of the shareholders' equity conversion component, is posted in shareholders' equity under capital reserves.

The number of valid convertible bonds still outstanding as part of the approved investment program came to 46,210 as per December 31, 2008 (2007: 61,831). The weighted average remaining term of convertible bonds outstanding is 1.19 years.

Total changes in convertible bonds outstanding

	2008	2007	2006
Convertible bonds outstanding, Balance at Jan. 1	61,831	103,529	126,772
Issued	0	0	0
Exercised	-3,200	-10,416	-120
Forfeited	0	-10,800	-258
Lapsed	-12,421	-20,482	-22,865
Convertible bonds outstanding, Balance at Dec. 31	46,210	61,831	103,529
Average exercise price in € per share	8.81	7.72	8.62

Conversion price and life of convertible bonds outstanding

Conversion price in €	Coupon in % p.a.	Number of outstanding bonds	Remaining contractual life	Number of exercisable bonds
7.69	2.5	12,210	1	12,210
8.08	2.5	25,000	1	25,000
12.37	2.5	9,000	2	9,000
		46,210		46,210

d) Authorized capital and specification of contingent capital

The Executive Board was authorized by a resolution of the annual stockholders' meeting on July 16, 2008 – upon approval by the Supervisory Board – to increase the share capital by a total of up to 16,973,240.00 € (approximately 49.87% of the share capital) until July 15, 2013 by issuing up to 16,973,240 new bearer ordinary shares (no-par shares) on one or more occasions against contributions in cash or in kind (2008 authorized capital). The authorization can be used in partial amounts. The Executive Board is authorized to stipulate the further content of share rights and the conditions of issuing shares with the consent of the Supervisory Board.

e) Conditional capital and specification of conditional capital

The company's share capital was increased conditionally upon a resolution by the annual stockholders' meeting on July 16, 2008 by 10,000,000.00 € (conditional capital XIX). The sole purpose of the conditional capital is to grant new shares to the holders of warrant-linked or convertible bonds that are issued in accordance with the resolution by the annual stockholders' meeting on July 16, 2008 under 7 b) by MediGene AG or companies in which it has a direct or majority stake. The shares are issued at the respective standard conversion and option price according to the resolution previously mentioned. The conditional capital increase is only carried out to the extent that the holders of conversion or option rights exercise these rights or meet the conversion requirements of such bonds. Provided that the shares exist by the start of the company's annual stockholders' meeting, they entitle their owners to participate in the profits from the beginning of the previous financial year, or otherwise from the beginning of the first financial year in which they exist.

Specification of contingent capital

(No.)	Amount as of Dec. 31, 2008	Usage[1]
I	136,897	Options
II	106,429	Options
III	125	TBG[2]-Loan
IV	13,770	Convertible bonds
V	652,329	Convertible bonds
VI	3,000	Convertible bonds
VIII	3,000	Convertible bonds
X	3,000	Convertible bonds
XI	1,400	Convertible bonds
XII	498,560	Options
XVI	300,000	Options
XVII[3]	0	Options
XVIII	1,600,000	Options
XIX[4]	10,000,000	Conversions and options
	13,318,510	

[1] to provide for
[2] Technologie-Beteiligungsgesellschaft mbH
[3] Cancelled by shareholders' resolution of July 16, 2008
[4] Newly created by shareholders' resolution of July 16, 2008

f) Dilution

The total number of shares issued as per the balance sheet date December 31, 2008 amounted to 34,028,561 and the number of shares on the basis of »full dilution« was 34,133,468. The changes to shareholders' equity caused by exercising options and convertible bonds are listed in the statement of changes to shareholders' equity.

(48) Capital reserves

In 2008, 78,880 stock options (2007: 8,944) and 3,200 convertible bonds (2007: 10,416) were converted.

Capital reserves

In T€	Jan. 1, 2007	Change	Dec. 31, 2007	Change	Dec. 31, 2008
Shares issued	322,280	23,490	345,770	0	**345,770**
Expenses capital increase	-14,831	-981	-15,812	0	**-15,812**
Exercised stock options	711	18	729	161	**890**
Exercised convertible bonds	1,411	34	1,445	10	**1,455**
Expenses new options/bonds	2,056	479	2,535	1,135	**3,670**
Total	**311,627**	**23,040**	**334,667**	**1,306**	**335,973**

(49) Accumulated deficit

Accumulated deficit

In T€	Jan. 1, 2007	Change	Dec. 31, 2007	Change	Dec. 31, 2008
Retained earnings	-232,601	-29,876	-262,477	-30,790	**-293,267**
Total	**-232,601**	**-29,876**	**-262,477**	**-30,790**	**-293,267**

(50) Other reserves

Other reserves

In T€	Jan. 1, 2007	Change	Dec. 31, 2007	Change	Dec. 31, 2008
Realized loss from market valuation QLT, Inc. shares	0	-243	-243	243	**0**
Net loss on hedge of an investment	0	0	0	-1,837	**-1,837**
Currency translation adjustments	589	-3,632	-3,043	-6,949	**-9,992**
Total	**589**	**-3,875**	**-3,286**	**-8,543**	**-11,829**

Monetary items in the form of outstanding accounts to foreign subsidiaries are accounted for as part of a net investment in this foreign company. Currency differences are directly posted in the shareholders equity. In addition, this balance sheet item also shows currency differences for assets and goodwill reported in a foreign currency as well as foreign currency differences from the translation of foreign subsidiaries' financial statements.

(51) Non-current financial liabilities

The non-current financial liabilities as per December 31, 2008 include convertible bonds. For a description of the structure of the convertible bond program and the accounting, please refer to item (47).

(52) Pension liabilities

MediGene offers all of its employees in Germany defined benefit plans in the form of a benevolent fund. These pension plans are fully reinsured with contracts. Moreover, the Group has made individual agreements with the members of its management and some employees in the form of direct commitments with guaranteed interest rates. These commitments allow for the

conversion of bonus payments into pension entitlements for defined benefit plans. The assets allocated to these pension entitlements do not represent plan assets in accordance with IAS 19.7. The amount for pension obligations is determined as follows:

Pension accruals

In T€	Dec. 31, 2008	Dec. 31, 2007
Present value of obligations	1,414	1,152
Fair value of plan assets	-1,303	-997
Sub-total	**111**	**155**
Unrealized actuarial gains/losses	76	83
Effect of IAS 19.58(b) limit	28	12
Liability in the balance sheet	**215**	**250**

The plan assets are made up of liability insurance policies. As per the balance sheet date December 31, 2008, the actual losses from liability insurance amounted to 9 T€. In comparison, the actual income in the previous year totaled 43 T€. The following amounts were recorded in personnel expenses in the income statement:

Expenses recognized in the income statement

In T€	2008	2007
Current service costs	95	63
Interest expenses	59	41
Expected return on plan assets	-47	-45
Actuarial gains/losses recognized in the year	-10	-2
Effect of IAS 19.58(b) limit	14	12
Total included in personnel expenses	**111**	**69**

Principal actuarial assumptions

In %	2008	2007
Discount rate	5.7	5.5
Expected return on plan assets	4.0	4.5
Future contingent right increases	4.0	4.5
Future pension increases	1.0/2.0	1.0/2.0

The 2005 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€	
Benefit obligation at Jan. 1, 2007	**933**
Interest expenses	41
Service costs	63
Plan members contributions	213
Actuarial gains/losses	-98
Benefit obligation at Dec. 31, 2007	**1,152**
Interest expenses	59
Service costs	95
Plan members contributions	232
Paid benefits	-64
Actuarial gains/losses	-60
Benefit obligation at Dec. 31, 2008	**1,414**
of which are	
funded by plan assets	1,232
not funded by plan assets	182

Changes in the present value of the plan assets are as follows:

In T€	
Fair value of plan assets at Jan. 1, 2007	**840**
Expected return on plan assets	39
Employer contributions	86
Member contributions	28
Actuarial gains/losses	4
Fair value of plan assets at Dec. 31, 2007	**997**
Expected return on plan assets	47
Employer contributions	129
Member contributions	232
Paid benefits	-46
Actuarial gains/losses	-56
Fair value of plan assets at Dec. 31, 2008	**1,303**

The figures for the current and previous reporting periods since the existence of the pension obligation are as follows:

In T€	2008	2007	2006	2005	2004
Benefit obligation	1,414	1,152	933	735	36
Fair value of plan assets	-1,303	-997	-840	-576	0
Funded status	111	155	93	159	36
Unrecognised net actuarial losses	76	83	-17	-67	0
Experience adjustments on plan liabilities	-40	-1	-2	-41	0
Experience adjustments on plan assets	57	-4	23	60	0

(53) Income taxes

The major components of the income tax expense for the 2008 and 2007 financial years are as follows:

Income taxes

In T€	2008	2007	Change
Actual deferred taxes:			
R&D tax credit	700	2,389	-71%
Deferred taxes	1,656	-920	>-200%
Actual tax income reported in consolidated income statement	**2,356**	**1,469**	**60%**

In 2008, company's subsidiary MediGene Ltd. received a R&D tax credit amounting to 700 T€. Moreover, deferred taxes from the year 2007 of 1,656 T€ were released during the reporting period.

Deferred taxes as per December 31, 2008 related to the following items:

Deferred taxes

In T€	Consolidated balance sheet		Consolidated income statement	
	Dec. 31, 2008	Dec. 31, 2007	2008	2007
Deferred tax assets				
Deferred taxes on carry forward tax losses				
Germany	38,915	34,767	4,148	4,681
USA	15,845	14,519	789	1,192
United Kingdom	6,413	8,623	-92	-922
	61,173	57,909	4,845	4,951
Non deductible	-54,983	-48,680	-5,766	-6,503
Net	6,190	9,229	-921	-1,552
Difference from useful life of tangible assets	829	991	115	-21
Other taxes from grants	2,374	2,311	21	90
Derivative financial instruments	307	240	67	204
Liability pension insurance	156	83	73	-30
Valuation of accruals	10	9	1	-37
	3,676	3,634	277	206
Non deductible	-2,425	-2,368	-11	-34
Net	1,251	1,266	266	172
Deferred tax liabilities				
Capitalization of acquired licenses	7,300	12,083	2,384	408
Difference from useful life of assets	0	2	2	-2
Capital lease	0	0	0	39
Pension accruals	141	66	-75	13
Convertible bonds	0	0	0	2
	7,441	12,151	2,311	460
Deferred tax income			1,656	-920
Deferred tax liability	0	-1,656		
Stated in balance sheet				
Deferred tax asset	0	0		
Deferred tax liability	0	-1,656		
Deferred tax liability	0	-1,656		

In 2008, neither a tax gain nor a tax expenditure from deferred taxes was posted (2007: tax expenditure of 219 T€) in shareholders' equity.

As additional losses are expected in the foreseeable future, the tax claims from loss carryforwards were not reported to the extent that they exceeded tax liabilities. Deferred tax assets and liabilities have been balanced against one another if they relate to the same tax authorities and refer to congruent periods.

The calculation of deferred taxes in Germany starting on January 1, 2008 is based on a combined tax rate of 26.33%. This is made up as follows: 15% corporate income tax rate, 5.5% solidarity surcharge on the corporate income tax, and 10.5% trade tax.

A combined tax rate of 35.98% was used for calculating deferred tax until December 31, 2007. This was comprised of a corporate income tax rate of 25%, a 5.5% solidarity surcharge, and trade tax of 13.04%. The deductibility of the trade tax was accounted for when determining the combined tax rate. As for the deferred taxes of foreign business segments, the country-specific tax rates were used.

The tax expense recognized differs from the expected tax expense which would have resulted from the application of the nominal tax rate for the result in accordance with IFRS. A transition of the differential effects can be seen in the table below, in which the tax rate applicable in the respective period was applied.

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

Income taxes

In T€	2008	2007
Earnings bevor tax	-33,146	-31,345
Expected tax income	**8,727**	**11,278**
Tax credit	700	2,389
Use of UK tax losses carried forward	-813	-3,201
Increase of not reported deferred taxes from retained tax losses carried forward	-5,766	-6,503
Adjustment of accumulated losses brought forward from the previous year	55	0
Temporary differences not posted	-11	-34
Non-deductible expenses/other	-533	-512
Effect of tax rate differences Germany	0	-1,948
Tax rate alterations UK	-531	0
Effect of tax rate differences UK	221	-473
Effect of tax rate differences USA	253	124
Expenses capital increases	0	358
Other	54	-9
Actual tax income	**2,356**	**1,469**

The tax income for the 2008 financial year consists of the effects from the emergence and reversal of temporary differences as well as an R&D tax credit received by the subsidiary MediGene Ltd. in the United Kingdom. This lowers the existing loss carryforwards and the deferred tax assets applied on the basis of these loss carryforwards.

Carried forward losses

In T€	Dec. 31, 2008	Dec. 31, 2007
Corporate taxes Germany	148,580	132,683
Trade taxes Germany	146,688	131,146
State Tax USA	38,630	35,306
Federal Tax USA	39,975	36,602
Corporate Tax UK	22,558	28,744

According to the German Corporate Income Tax Act (KStG), tax loss carryforwards can fundamentally be carried forward for an unlimited period of time. The deduction of existing loss carryforwards is excluded when the company carrying the losses loses its tax identity.

The loss carryforwards of the subsidiary MediGene Ltd. in the United Kingdom may be used for an unlimited period provided that it does not lose its tax identity. In contrast, the loss carryforwards at MediGene, Inc. (USA) are forfeited between 2009 and 2026. In the US, tax loss carryforwards based on federal tax can be utilized for 20 years, while those based on state tax expire after 10 years.

(54) Trade accounts payable and other current liabilities

The trade accounts payable as per the end of the period under review amounted to 10,496 T€ (2007: 2,242 T€). The rise in debt is mainly attributable to outstanding invoices by the company QLT totaling 8,121 T€ for the delivery of goods as well as for license fees and milestones. The rest is split up among outstanding invoices mainly prepared for services utilized by MediGene. For the maturity analysis of financial liabilities, please refer to item (60).

Other current liabilities amounting to 3,339 T€ (2007: 6,008 T€) are largely made up of due bonus payments of 1,112 T€ (2007: 971 T€), debt from wage withholding and church taxes amounting to 559 T€ (2007: 206 T€), and services in the fields of clinical trials and approvals totaling 409 T€ (2007: 1,086 T€) that have been received but not yet invoiced. In the same period of the previous year, there existed current liabilities primarily in due payments for license fees amounting to 2,276 T€.

(55) Derivative financial instruments
The contract concluded with Astellas Pharma for the marketing of Eligard® includes an embedded derivative as it is denominated in US dollars and not in the functional currency of either of the two contractual parties. Losses (gains) from this derivative arise from currency losses (gains) in the US dollar against the euro, and their effect is always recorded at the end of the period. The embedded derivative is valued on the basis of Astellas Pharma's orders expected through June 30, 2009.

The option within the scope of the license agreement concluded with Virionics Corporation to receive a company share of up to 15% of Virionics in installments also represents a derivative financial instrument. Up to now MediGene has not received any company shares in Virionics. The management estimates that the fair value of the respective derivative financial instrument is zero.

(56) Accruals
An accrual of 780 T€ was formed in 2006 in order to meet FDA (Food and Drug Administration) requirements in the US regarding the approval of Veregen®. In 2007, MediGene began implementing the requirements. Accruals as per December 31, 2008 totals 455 T€ (2007: 437 T€).

(57) Contingent liabilities
No accruals existed for the contingent liabilities listed below, as the risk of utilizing them is deemed unlikely.

In the framework of existing license agreements, MediGene has committed to submitting milestone payments of approximately 9.5 million € to the respective licensors. The management does not believe that accrued expenses need to be formed for this, as the corresponding payments will only become due once certain milestones are reached.

The share of the financial obligations of Immunocore Ltd. amount to 95 T€.

As per the balance sheet date, a rent security guarantee (312 T€) to the lessor existed, as did a bank guarantee (27 T€) to the lessor.

Expenses of 1,461 T€ were incurred for operating leases (2007: 1,411 T€).

The future annual minimum rent and leasing payments for operating leases are as follows:

In T€	Rent and leasing payments
2009	1,362
2010	1,243
2011	1,194
2012	1,159
Later	3,887
Minimum lease obligations	**8,845**

The company leases office and laboratory facilities, office furnishings, laboratory equipment, and vehicles. These constitute operating leases given the fact that the contractual agreement does not transfer the risks and rewards to the Group. The lease agreements have varying conditions, rental increase clauses, and extension options.

The Group has a notice period of one month to ten years with these lease agreements, depending on the contract.

(58) Total unused/open credit lines
In addition to the cash posted under item (46), no open credit lines existed as per December 31, 2008.

(59) Related parties
The parties deemed related are individuals and/or entities that can be significantly influenced by the company or can exert significant influence on the company. Related parties are the company's Executive and Supervisory Boards as well as the company Immunocore Ltd.

Effective as per September 30, 2008, MediGene Ltd. founded the company Immunocore Ltd. together with a group of private investors. MediGene introduced the monoclonal T-cell receptor technology (mTCR) developed by the UK subsidiary MediGene Ltd. to Immunocore Ltd. as the core of the new company. MediGene Ltd. made a cash contribution of 3 million €, as well as a non-cash contribution (patents and other assets) totaling 1 million €. The patents mainly cover the monoclonal T-cell receptors (mTCR). In return, MediGene received 39.09% of the shares in Immunocore Ltd., making it the new company's largest shareholder.

The Managing Director of Immunocore Ltd. is James Noble, the former Managing Director of Avidex Ltd. and former member of the Supervisory Board of MediGene AG. Dr Peter Heinrich, CEO of MediGene AG, is a member of Immunocore Ltd.'s Board of Directors, its supervisory committee.

The remuneration and shareholdings of the company's Executive and Supervisory Boards are itemized individually for each director under H) Executive Board and Supervisory Board. In the lapsed financial year, no transactions between the Group and related parties existed.

(60) Objectives and methods of financial risk management

The main financial liabilities incurred by the Group, with the exception of derivative financial instruments, are trade accounts payable and other liabilities. The main purpose of these liabilities is to finance the Group's business activities. The Group possesses various financial assets, trade accounts receivable, and cash.

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

The Group's business activities expose it to various financial risks: market risks (includes foreign exchange risks and fair value interest rate risks), credit risks, liquidity risks, and cash flow interest rate risks.

Below is a description of the financial risk factors and the financial risk management of the MediGene Group associated with these. The management does not see the following items which currently exist as a result of financial risks as significant.

Market risks

Interest rate risk

Fluctuations in market interest rates impact the cash flows of interest-bearing assets and, furthermore, the fair value of convertible bonds and pensions. MediGene's management has deliberately decided to avoid carrying out transactions aimed at hedging interest-based cash flows, as short-term availability for financing operating activities is a priority when investing cash and cash equivalents.

Analysis of sensitivity of interest rate risk (cash flows)

	Change in interest rates in basis points	Effects on result before taxes in T€
2008	**50**	**170**
2007	50	248

Interest rate changes also impact the fair value of cash-generating units derived from financial projections based on intangible assets and goodwill. Accordingly, the rise in the interest rates used for the valuation can lead to an effective impairment of intangible assets or goodwill. For example, the rise in the risk-free interest rate can cause the fair value of the CGU to drop to such an extent that an impairment of goodwill or an intangible asset becomes necessary.

Foreign exchange risk

Foreign exchange risks arise when future business transactions, assets in the balance sheet, and liabilities are denominated in a currency other than the company's functional currency. The Group operates on an international basis and is therefore exposed to foreign exchange risks based on the changes to the rates between the US dollar and the euro or the British pound and the euro. The subsidiaries of MediGene AG use the US dollar (MediGene, Inc.) and the British pound (MediGene Ltd.) as their functional currencies.

The foreign exchange risk pertains to revenue in US dollars from Eligard® and Veregen® sales as well as milestone payments for Veregen® from the partner Nycomed. In addition, the costs for purchasing Eligard® and the effective ingredient of Veregen® as well as the license fee payments to licensors associated with the sale of these products are dependent on foreign currencies. 79% of the overall revenue generated by the Group is earned in foreign currency, of which 98% in turn accrues in US dollars. Of the costs of sales, 96% refers to foreign currency, 100% of which involves US dollars.

The MediGene Group reduces the foreign exchange risks resulting from its subsidiaries' operating activities by utilizing the proceeds generated from the products marketed in US dollars to finance the purchase of goods and other activities by the US subsidiary. The following table shows the sensitivity of the Group income before tax and the shareholders' equity to changes to the exchange rate of the euro to the US dollar. All other 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€
2008	**+5%**	**356**	**356**
	-5%	**-402**	**-402**
2007	+5%	216	216
	-5%	-225	-225

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

At Group level, the operating activities of the subsidiaries and the assets and liabilities classified accordingly result in foreign exchange risks. The change in value of the British pound against the euro has its major impact on the reported assets of MediGene Ltd., the goodwill allocated to this company, and the share in an associate. In addition, monetary items in the form of an account receivable against foreign subsidiaries (net investment in foreign business operations) are subject to foreign currency fluctuations. The overall resulting changes are posted as other reserves not affecting net income in shareholders' equity.

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€
2008	**+5%**	**215**	**1,855**
	-5%	**-238**	**1,919**
2007	+5%	133	2,437
	-5%	-147	-2,479

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

Securities-related share price risks

Concerning its participation in equity capital in 233,918 shares of the Canadian company QLT, Inc., as well as the other financial assets available for sale, the Group is exposed to the risk of changing share prices

Credit risk

The Group has no significant concentrations as regards possible credit risks. Relationships exist with two major customers, Astellas Pharma and Nycomed. The creditworthiness of the respective customers is monitored using the publicly available management's discussion and analysis reports and the consolidated financial statements.

In terms of the Group's other financial assets such as cash and cash equivalents and available-for-sale financial investments, the maximum credit risk upon default by the counterparty equals the carrying amount of these instruments.

Liquidity risk

MediGene's liquidity management aims to hold a sufficient degree of cash reserves and tradable securities as well as to secure the issue of treasury shares on the market in order to overcome any possible liquidity bottlenecks. Under the current conditions, MediGene expects that it can issue tradable securities on the market.

As per December 31, 2008, the Group's financial liabilities featured the maturities shown below. These are disclosed on the basis of contractual, undiscounted payments.

Financial liabilities

	Maturity					
In T€	up to 30 days	30–90 days	3–12 months	1–5 years	>5 years	Total
Dec. 31, 2008						
Trade accounts payable	9,716	780	0	0	0	**10,496**
Financial liabilities	0	0	0	169	0	**169**
Other debt	1,587	1,420	332	0	0	**3,339**
Total	**11,303**	**2,200**	**332**	**169**	**0**	**14,004**
Dec. 31, 2007						
Trade accounts payable	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**

Capital management

The primary goal of MediGene's management is to secure sufficient liquidity to finance ongoing research and development programs. The most important control variable aside from the absolute amount of cash and cash equivalents is particularly the liquidity coverage ratio – the share of cash and securities in total assets. A sufficiently high shareholders' equity ratio is needed to be able to flexibly make use of the equity and debt financing options offered on the market.

Performance indicators of capital control

		2008	2007
Liquidity cover ratio in %	Cash x 100 / Balance sheet total	31	40
Equity ratio in %	Equity x 100 / Balance sheet total	80	90

(61) Other financial assets and liabilities

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

Other financial assets and liabilities

In T€	Carrying amount		Fair value	
	2008	2007	2008	2007
Financial assets				
Cash and cash equivalents	25,101	46,511	25,101	46,511
Available-for-sale financial assets	540	891	540	891
Financial liabilities				
Financial debt	169	194	169	194
Derivative financial instruments	1,166	913	1,166	913

The listed shares and fund shares shown under financial assets are valued at the market price on the closing date. The fair value of the derivative financial instrument was derived from current Eligard® orders and those forecast by the partner, 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 interest rates for the market.

(62) Major events since the period under review

MediGene listed in TecDAX

Since February 9, 2009, the MediGene share has been listed on the TecDAX index of the German Stock Exchange. The admission criteria are market capitalization and liquidity of the share.

US marketing of Veregen® started

On February 16, 2009, Nycomed started promotion and active marketing of Veregen® in the USA.

E) Consolidated statement of changes in shareholders' equity

The consolidated statement of changes in shareholders' equity for the 2008 and 2007 financial years forms a separate part of the consolidated financial statements.

F) Notes on the cash flow statement

The cash flow statement shows the origin and use of cash flows in the 2008 and 2007 financial years. It is therefore of central importance in assessing the company's financial situation.

The cash flows from investing and financing activities are each determined on a cash basis. The cash flow from operating activities, on the other hand, is derived indirectly on the basis of the net loss.

In the scope of non-cash financing activities, no new lease obligations were entered into in 2008 for laboratory and office equipment.

Liquid assets at the end of the period were made up exclusively of cash and cash equivalents in accordance with IAS 7.7. The cash and cash equivalents illustrated in the cash flow statement correspond to the »Cash and cash equivalents« item in the consolidated balance sheet.

G) Segment reporting

Primary reporting format – business units
In global terms, the Group was organized into two primary business units as per December 31, 2008: »Specialty Pharma« and »Biopharma«. The segments are comprised as follows:

Specialty pharma products and product candidates:
- Eligard® for the treatment of hormone-dependent prostate cancer in advanced stages
- Polyphenon E® Ointment/Veregen® for the treatment of genital warts

Biopharma product candidates & technologies:
- EndoTAG™-1 for the treatment of solid tumors
- RhuDex™ for the treatment of rheumatoid arthritis
- oHSV for the treatment of various cancer indications
- Anti-L1 antibodies for the treatment of ovarian carcinoma
- Preclinical product candidates: YourDex™, HiDex™, and EsoDex™ (the latter two through September 30, 2008)

- EndoTAG™ technology
- mTCR technology platform (through September 30, 2008)
- oHSV technology
- AAVLP technology

No internal charges of a regular or planned nature exist between the business segments and regions. For this reason, no disclosures have been made on transfer prices.

The individual segments' revenue is generated by external business relationships.

The 3,269 T€ stake in the associate has been allocated to »Biopharma« in segment assets.

Segment reporting by market segments

In T€	Specialty Pharma	Biopharma	Other/ not allocated	Eliminations	Total
2008					
Sales to external customers	37,932	1,592	82		**39,606**
Intersegment sales	0	0	43	-43	**0**
Total revenue	**37,932**	**1,592**	**125**	**-43**	**39,606**
Cost of sales	-26,926	0	0		**-26,926**
Gross profit	**11,006**	**1,592**	**82**		**12,680**
Selling expenses	-486	0	-2,277		**-2,763**
General administrative expenses	0	0	-7,721		**-7,721**
Research and development expenses	-2,391	-25,074	0		**-27,465**
Loss resulting from spin-off	0	-6,431	0		**-6,431**
Operating result	**8,129**	**-29,913**	**-9,916**		**-31,700**
Financial result					**-1,190**
Share of loss of an associate	0	-256	0		**-256**
Net result before taxes					**-33,146**
Taxes					**2,356**
Net loss					**-30,790**
Segment assets[1)]	5,842	42,870	32,034		**80,746**
Segment liabilities	0	0	15,840		**15,840**
Depreciation	-162	-6,658	-296		**-7,116**
Average number of employees	12	100	38		**150**
Segment investments[1)]	0	159	199		**358**
Provisions and employee benefit liabilities	0	0	215		**215**
2007					
Sales to external customers	22,046	1,814	17		**23,877**
Intersegment sales	0	0	60	-60	**0**
Total revenue	**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 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[1)]	2	593	513		**1,108**
Provisions and employee benefit liabilities	0	0	250		**250**

[1)] Segment investments also include finance lease investments.

Secondary reporting format – geographic segments or segments by region

The MediGene Group operates in Germany, the USA, and the United Kingdom. The Europe segment is comprised of the Group's activities in both Germany and the United Kingdom.

Segment reporting by geographical segments

In T€	Europe 2008	USA 2008	Group Total 2008	Europe 2007	USA 2007	Group Total 2007
Total revenue	39,596	10	39,606	23,877	0	23,877
Cost of sales	-26,926	0	-26,926	-18,493	0	-18,493
Selling and general administrative expenses	-10,285	-199	-10,484	-8,839	-187	-9,026
Research and development expenses	-25,782	-1,683	-27,465	-25,101	-2,924	-28,025
Loss resulting from spin-off	-6,431	0	-6,431	–	–	–
Operating result	-29,828	-1,872	-31,700	-28,556	-3,111	-31,667
Segment investments	353	5	358	1,097	11	1,108
Cash flows from operating activities	-25,003	-2,358	-27,361	-30,986	-3,051	-34,037
Segment assets						
allocated	48,627	85	48,712	60,965	168	61,133
not allocated			32,034			53,796
Segment assets, total			80,746			114,929
Segment liabilities						
allocated	0	0	0	136	0	136
not allocated			15,840			11,700
Segment liabilities, total			15,840			11,836
Average number of employees	145	5	150	154	5	159

Segment assets are first and foremost comprised of property, plant, and equipment, intangible assets, inventories, and receivables. They exclude deferred tax. The segment liabilities include operating debt. The segment investments consist of additions from property, plant, and equipment and intangible assets, as well as financial lease investments.

(63) Legal disputes

Prior to the market launch of Eligard® in 2004, MediGene had filed a suit before the German Federal Patents Court for invalidity of the German portion of a European patent held by its competitors Takeda Chemical Industries, Ltd., Osaka, Japan, and Wako Pure Chemical Industries, Ltd., Osaka, Japan. The patent pertains to more specifically defined high-molecular, biodegradable polymers. After the market launch of Eligard®, Takeda Chemical Industries, Ltd., Takeda Pharma GmbH, and Wako Pure Chemical Industries, Ltd. (Takeda/Wako) themselves sued the partners MediGene and Astellas Pharma GmbH, Munich, in the summer of 2004 before the Düsseldorf Local Court for patent infringement. The lawsuit alleges that the marketing of MediGene's and Astellas Pharma's drug Eligard® infringes the aforementioned patent held by the plaintiffs.

The Third Nullity Board of the German Federal Patents Court decided in verbal negotiations on April 20, 2005 that all claims of the aforementioned patent asserted by Takeda and Wako against MediGene and Astellas Pharma before the Düsseldorf Local Court were invalid for the Federal Republic of Germany. Takeda and Wako have appealed this judgment before the Federal Court of Justice. The ruling here is anticipated in 2009. At the same time, the Düsseldorf Local Court has suspended the suit for patent infringement until the final legal decision on invalidity, whereby the patent in question expired at the beginning of May 2006.

In the further course of the issue, MediGene filed a claim in April and May 2006 against the issue of European patents EP 1 310 517 B1 and EP 1 330 293 B1 to the companies Wako Pure Chemical Industries, Ltd. and Takeda Pharmaceutical Company Ltd. as well as Takeda Pharmaceutical Company Ltd. Moreover, there was a parallel patent infringement case in the US brought by Takeda Abbott Pharmaceutical Product, Inc., Lake Forest, Illinois, USA, Takeda Chemical Industries, Ltd., and Wako Pure Chemical Industries, Ltd. against MediGene's supplier and licensor QLT USA, Inc. (formerly Atrix Laboratories, Inc.) and the US marketing partner of QLT USA, Inc., Sanofi-Synthelabo, Inc., New York, New York, USA. This lawsuit was settled out of court according

to a press release by QLT USA, Inc. dated February 9, 2007. As the other parties thus far have yet to make any indemnification claims and the management believes it less than 50% likely that any will be filed, no provision has been formed. Moreover, according to the license agreement signed with QLT USA, Inc., the licensor shall be liable for any indemnification claims.

In July 2008, following the death of a volunteer who participated in a study with the drug candidate RhuDex™, the Procurator Fiscal in Edinburgh, United Kingdom, routinely started investigations which are not yet completed. MediGene expects the investigation to be concluded within the first half of 2009. Additionally, it is possible that the family will file civil action. Considering the results of the investigation so far, the management assumes the likelihood of such a claim as being quite unlikely.

With the exception of the aforementioned legal disputes, no legal disputes that could have a major influence on the commercial situation of the company or its subsidiaries were pending in the last twelve months, nor is there currently a threat of any.

(64) German Corporate Governance Code

MediGene's Executive Board and Supervisory Board confirmed on November 27, 2008 that MediGene AG complies with most of the recommendations of the German Corporate Governance Code in the version dated June 6, 2008. The respective recommendations of the Code that MediGene AG does not implement are explained in the Declaration of Compliance according to Section 161 of the German Stock Corporation Act. This declaration is permanently available on the company's website (http://www.medigene.de/englisch/corporate_governance.php) in German and English.

(65) Auditing fees

The auditors and Group auditors were paid the following fees in the lapsed financial year:

Auditing fees of MediGene AG

In T€	2008	2007
Audit	120	123
Other certification or valuation services	19	21
Other services	164	11
Total	303	155

H) Executive and Supervisory Boards

(66) Executive Board

Changes to the Executive Board

On November 29, 2007, the Supervisory Board of MediGene AG appointed Dr Frank Mathias as the Chief Operating Officer with effect from April 1, 2008. Dr Mathias has some 20 years of experience in the marketing of drugs in the fields of chemicals, pharmaceuticals, and biotechnology. He studied pharmaceutics at Université Paris VI and received a doctorate in 1991. His industrial career as International Product Manager at Hoechst AG, Frankfurt, Germany, began in 1988, prior to moving to Albert-Roussel Pharma GmbH in Wiesbaden, Germany in 1990. There he initially worked as a pharmaceutical consultant and subsequently as a Product Group Manager and the Deputy Head of Marketing. In 1995 Dr Mathias became director of the anti-infectives marketing segment at Hoechst Pharma in Frankfurt, Germany, before moving to Servier Deutschland GmbH in Munich, Germany as the company's Marketing Director. There he took on the post of Managing Director in 1996. In 2002 Dr Mathias assumed his position as the Commercial Director at Amgen GmbH, Munich, Germany, where he successfully held the post of Managing Director since 2003.

On May 19, 2008, the Supervisory Board of MediGene AG appointed Dr med Axel Mescheder as Chief Research & Development Officer effective immediately. Dr Mescheder took over the position of Dr Ulrich Delvos on the Executive Board, who had left the company effective May 16, 2008 upon mutual consent with the company. Dr Mescheder is a specialist in pharmacology and toxicology and has 15 years of management experience in clinical research and development at international pharmaceutical and biotech companies. Axel Mescheder studied human medicine in Kiel, Germany and Cincinnati, USA, and became licensed to practice medicine in 1986. After working for several years in medical and scientific fields at Kiel University Hospital, Germany, the physician and specialist began his industrial career in 1993 as the Medical and Product Manager at Hoffmann-La Roche AG, Grenzach, Germany. In 1997 Dr Mescheder became the Director of Intensive Care Europe at Aventis Behring, (Marburg, King of Prussia, USA). Two years later, he took over the function of Director of Clinical Research & Development at Genetics Institute GmbH (Munich, Germany and Boston, USA), part of Wyeth International Pharma. Dr Mescheder worked as the Medical Director of MorphoSys AG, Planegg/Martinsried, Germany from 2001 to 2003. In February 2003, he transferred to MediGene AG as the Vice President of Clinical Research & Development.

Remuneration of the Executive Board

The total compensation paid to the members of the Executive Board in the lapsed fiscal year amounted to 2,302 T€ (2007: 1,131 T€) including expenses for pensions totaling 91 T€ (2007: 64 T€). The increase is on one side attributable to the appointment of an additional Executive Board member in April 2008, on the other side, bonus and compensation payments of 733 T€ for the premature retirement of an Executive Board member also accrued in the period under review. In addition, stock options with a fair value of 448 T€ (2007: 220 T€) were issued to the Executive Board. The remuneration of Executive Board members is comprised of fixed and variable components as well as incentives for a long-term increase in the company value. The criteria for the variable remuneration components are stipulated

every year in advance. Long-term compensation components consist of stock options with the aim of creating incentives geared towards sustained corporate success. Success targets cannot be subsequently changed. No advance payments to Board members were made.

In the financial year 2008, MediGene made a payment of 6 T€ (2007: 6 T€) to the relief fund to fulfill a pension obligation to a former Executive Board member.

Executive Board compensation 2008[1]

			Other variable compensation as long-term incentive	
Executive Board member	Fixed compensation and severance payments[3] in T€	Variable and performance based compensation[2] in T€	Number of stock options no.	Value of options in T€
Dr Peter Heinrich, Chief Executive Officer Biochemist, Todtenweis-Sand	270	154	90,000	199
Dr Thomas Klaue, Chief Financial Officer, Chemical Process Engineer and Business Economist, Pullach	211	89	38,333	81
Dr Frank Mathias, Chief Operating Officer (from April 1, 2008), Pharmacist, Munich	240	84	22,500	50
Dr Axel Mescheder, Chief Scientific Officer & Chief Development Officer (from May 19, 2008) Medical Specialist, Wörthsee	135	48	25,211	54
Dr Ulrich Delvos[3], Chief Operating Officer (until May 16, 2008) Medical Doctor, Munich	880	100	25,000	64
Total	**1,736**	**475**	**201,044**	**448**

[1] Additionally, 91 T€ were spent for Executive Board member pensions.
[2] On an accrued basis.
[3] Bonus and compensation payments amounting to 733 T€

(67) Supervisory Board

Changes to the Supervisory Board

MediGene AG announced on March 10, 2008 in accordance with section 106 of the German Company Act (AktG) that Mr. James Noble left the company's Supervisory Board effective February 29, 2008.

On February 4, 2008, Dr Thomas Strüngmann was appointed to the Supervisory Board of MediGene by Munich Local Court. The legal appointment of Dr Strüngmann was confirmed by the company's annual shareholders' meeting on July 16, 2008. Dr Strüngmann studied at the Universities of Augsburg and Munich in Germany and graduated with a degree in business administration. In 1977 he received his doctorate in the field of business administration. One year later he took on the position of Product Manager at the company Schering-Plough, Switzerland and Kenilworth, USA. In 1979 Dr Strüngmann became a member of the Executive Board of Durachemie and, in the same year, founded the company Hexal together with his twin brother Dr Andreas Strüngmann. Approximately ten years later he became the CEO of Hexal AG and EON Labs, USA. In 2005 Dr Strüngmann and his brother sold both companies. Dr Thomas Strüngmann later became a member of the Sandoz Executive Committee. He has been the Managing Director of ATHOS Service GmbH since October 2006.

MediGene AG announced on January 13, 2009 in accordance with section 106 of the German Company Act (AktG) that Dr Thomas Strüngmann had given up his post as a member of the company's Supervisory Board effective December 31, 2008.

The annual shareholders' meeting of MediGene AG appointed Dr Mathias Albert Boehringer to the Supervisory Board of MediGene AG on July 16, 2008 in Munich, Germany. Dr Boehringer studied at the University of Saarland in Germany and graduated with a degree in business administration. In 1997 he received his doctorate in the field of business administration at the University of Frankfurt in Germany and, in the same

year, started work at the company Schering Peruana S.A. After starting out as a sales representative, one year later he held the post of Product Manager for dermatology and cardiology. In mid-1999 he joined the company Centro Estratégico de Canadá y Latinoamérica S.A. de C.V., where he initially worked as the Regional Product Manager in the field of dermatology before adding gynecology and business development two years later. Dr Boehringer became the Managing Director of the Caribbean region at Schering Dominicana S.A. de C.V. at the beginning of 2003. He has been a member of the shareholders' committee of Boehringer Ingelheim since the end of 2005.

Remuneration of the Supervisory Board

The remuneration paid to the Supervisory Board in 2008 amounted to 233 T€ (2007: 220 T€). The total remuneration received by the Supervisory Board members consists of a fixed component and an allowance for meetings attended. When assessing the extent of Supervisory Board members' activities, the chairmanship and deputy chairmanship are taken into account. Disclosures on the subscription rights of Board members and employees are shown under item (69). No advance payments were granted to Board members.

Supervisory Board compensation 2008

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
Prof Dr Norbert Riedel, Vice Chairman	36	15	0	0
Dr Pol Bamelis, Member	24	10	0	0
Sebastian Freitag, Member	24	8	0	0
James Noble, Member (until February 29, 2008)	4	0	0	0
Dr Thomas Strüngmann, Member (until December 31, 2008)	22	8	0	0
Dr Mathias Albert Boehringer, Member (from July 16, 2008)	12	2	0	0
Total	**170**	**63**	**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 the 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, Germany

James Noble
Until February 29, 2008
Managing Director, Immunocore Ltd., Oxford, United Kingdom

Dr Thomas Strüngmann
From February 4, 2008 until December 31, 2008
Managing Director, ATHOS Service GmbH and Santo Holding (Deutschland) GmbH, Tegernsee, Germany

Dr Mathias Albert Boehringer
Since July 16, 2008
Shareholders' committee member, Boehringer Ingelheim, Ingelheim, Germany

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

Prof Dr Ernst-Ludwig Winnacker
- Bayer AG, Leverkusen
- Wacker Chemie AG, Munich

Prof Dr Norbert Riedel
- Oscient Pharmaceuticals Inc., USA

Dr Pol Bamelis
- Actogenix N.V., Belgium
- Innogenetics N.V., Belgium (until August 31, 2008)
- Oleon N.V., Belgium
- G.P. PolyTechnos, Ltd., Guernsey, Great Britain
- Recticel, Belgium
- Sioen N.V., Belgium
- Devgen N.V., Belgium (until August 31, 2008)
- Televic N.V., Belgium

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

James Noble (until February 29, 2008)
- GW Parmaceuticals plc, London, Great Britain
- Evolve Capital plc, Great Britain
- Axellis Ltd., Great Britain
- CuraGen Corporation, Branford, Connecticut, USA

Dr Thomas Strüngmann (from 4. February 4, 2008 and until December 31, 2008)
- Wacker Chemie AG, Munich
- Südwestbank AG, Stuttgart (until July 31, 2008)

Dr Mathias Albert Boehringer (from July 16, 2008)
- Boehringer Ingelheim shareholders' committee, Ingelheim
- Phenex Pharmaceutical AG, Ludwigshafen

Dr Peter Heinrich
- MagForce Nanotechnologies AG, Berlin
- Immunocore Ltd., Great Britain (from October 1, 2008)

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

Member	Shares Dec. 31, 2008	Shares Dec. 31, 2007	Options Dec. 31, 2008	Options Dec. 31, 2007	CB[1] Dec. 31, 2008	CB[1] Dec. 31, 2007
Prof Dr Ernst-Ludwig Winnacker, Supervisory Board Chairman, Co-founder	**274,476**	273,676	**8,600**	8,600	**0**	800
Prof Dr Norbert Riedel, Supervisory Board Vice Chairman	**3,300**	3,300	**5,590**	5,590	**0**	0
Dr Pol Bamelis, Supervisory Board member	**400**	0	**0**	0	**0**	400
Sebastian Freitag, Supervisory Board member	**2,500**	0	**0**	0	**0**	0
James Noble (until February 29, 2008), Supervisory Board member	**117,352**	117,352	**0**	0	**0**	0
Dr Thomas Strüngmann (since February 4, 2008 and until December 31, 2008), Supervisory Board member	**0**	–	**0**	–	**0**	–
Dr Mathias Albert Boehringer (since July 16, 2008), Supervisory Board member	**0**	–	**0**	–	**0**	–
Total Supervisory Board	**398,028**	**394,328**	**14,190**	**14,190**	**0**	**1,200**
Dr Peter Heinrich, Chief Executive Officer, Co-founder	**505,505**	503,505	**246,636**	156,636	**0**	0
Dr Ulrich Delvos (until May 16, 2008), Chief Operating Officer	**4,000**	4,000	**75,000**	50,000	**0**	0
Dr Thomas Klaue, Chief Financial Officer	**4,500**	3,000	**38,333**	0	**0**	0
Dr Frank Mathias (from April 1, 2008), Chief Operating Officer	**0**	–	**22,500**	–	**0**	–
Dr Axel Mescheder (from May 19, 2008), Chief Scientific Officer & Chief Development Officer	**6,000**	4,500	**62,836**	37,625	**0**	–
Management Board, total	**520,005**	**515,005**	**445,305**	**244,261**	**0**	**0**
Own Shares	**0**	**0**	**0**	**0**	**0**	**0**

[1] Convertible bonds

(69) Notification in accordance with section 21 German Securities Trading Act (WpHG) and announcement in accordance with sections 25 and 26 German Securities Trading Act (WpHG)

Mr Rainer Kreifels, Germany, informed MediGene AG on April 5, 2007 that his voting rights fell short of the 10% threshold on January 16, 2007 and – based on the share capital of MediGene AG as per January 16, 2007 – amounted to 9.699% at this time. This corresponds to 2,778,959 voting rights. Of these, 9.699% of the voting rights (equal to 2,778,959 voting rights) were attributable to him in accordance with section 22 (I) (1) (6) of the German Securities Trading Act (WpHG). Of these 2,778,959 voting rights, 2,266,200 (equal to 7.9096% based on the share capital of MediGene AG as per January 16, 2007 and 7.3476% based on the share capital of MediGene AG as per February 15, 007) are attributable to Advent Venture Partners LLP, London, United Kingdom in accordance with section 22 (I) (1) (6) of the German Securities Trading Act (WpHG).

Advent Venture Partners LLP, London, United Kingdom, informed MediGene AG on April 5, 2007 that its voting rights exceeded the 5% threshold on December 11, 2006 and – based on the share capital of MediGene AG divided into 28,651,070 shares as per December 11, 2006 – amounted to 8.1985% at this time. This corresponds to 2,348,965 voting rights. Of these, 8.1985% (equal to 2,348,965 voting rights) based on the share capital of MediGene AG as per December 11, 2006 were attributable to Advent Venture Partners LLP in accordance with section 22 (I) (1) (6) of the German Securities Trading Act (WpHG).

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

Santo Holding AG, Alte Landstrasse 106, 8702 Zollikon, Switzerland, informed MediGene AG on September 25, 2007 that its voting rights exceeded the 3% and 5% thresholds on September 19, 2007 and, at this time, amounted to 9.09%. This corresponds to 3,084,282 voting rights. Of these, 9.09% of the voting rights (equal to 3,048,282 voting rights) were attributable to Santo Holding AG in accordance with section 22 (I) (1) (1) of the German Securities Trading Act (WpHG). Attributed votes are held via the following company controlled by Santo Holding AG, whose voting rights in MediGene AG amount to 9.09% (equal to 3,084,282 voting rights): Santo Holding (Deutschland) GmbH, Königstrasse 1 A, 70173 Stuttgart, Germany.

Syngenta AG, Basle, Switzerland, informed MediGene AG on July 25, 2008 that its voting rights fell below the 5% and 3% thresholds on June 26, 2088 and on this date amounted to 2.48%. This corresponds to 842,313 voting rights. These are attributable to Syngenta AG in accordance with section 22 (I) (1) (1) of the German Securities Trading Act (WpHG). Also on July 25, 2008, Syngenta Crop Protection AG, 4002 Basle, Switzerland, informed MediGene AG in accordance with section 21 (I) of the German Securities Trading Act (WpHG) that the voting rights held by Syngenta Crop Protection AG in MediGene AG fell below the 5% and 3% thresholds on June 26, 2008 and, on this date, amounted to 2.48%. This corresponds to 842,313 voting rights which are attributable to Syngenta Crop Protection AG in accordance with section 22 (I) (1) (1) of the German Securities Trading Act (WpHG).

Syngenta AG, Basle, Switzerland, informed MediGene AG on October 30, 2008 in accordance with section 21 (I) of the German Securities Trading Act (WpHG) that its voting rights in MediGene AG exceeded the 3% threshold on October 29, 2008 and on this date amounted to 3.27% (1,111,506 voting rights). These voting rights are attributable to Syngenta AG in accordance with section 22 (I) (1) (1) of the German Securities Trading Act (WpHG) by Syngenta Crop Protection AG. Also on October 30, 2008, Syngenta Crop Protection AG, Basle, Switzerland informed MediGene AG in accordance with section 21 (I) of the German Securities Trading Act (WpHG) that its voting rights in MediGene AG exceeded the 3% threshold on October 29, 2008 and on this date amounted to 3.27% (1,111,506 voting rights).

Disclosures of aggregate voting rights in accordance with section 26a of the German Securities Trading Act (WpHG):

On the respective cut-off dates, MediGene AG announced the following aggregate voting rights: on January 31, 2008, a total of 33,949,481 voting rights, on March 31, 2008, a total of 33,988,511 voting rights, on May 30, 2008, a total of 34,025,361 voting rights, on June 30, 2008, a total of 34,028,561 voting rights.

THE EXECUTIVE BOARD

Planegg/Martinsried, March 5, 2009
MediGene AG

Dr Peter Heinrich
Chief Executive Officer

Dr Thomas Klaue
Chief Financial Officer

Dr Frank Mathias
Chief Operating Officer

Dr Axel Mescheder
Chief Scientific Officer & Chief Development Officer

Consolidated changes in fixed assets

of MediGene AG for the period January 1 to December 31, 2008

In T€	Initial Cost				
	Jan. 1, 2008	Currency translation adjustments	Addition	Disposal	Dec. 31, 2008
Property, plant & equipment	10,111	-840	286	-2,719	6,838
Intangible assets	48,566	-8,139	72	-9,812	30,687
Goodwill	14,555	-691	0	0	13,864
Total	**73,232**	**-9,670**	**358**	**-12,531**	**51,389**

of MediGene AG for the period January 1 to December 31, 2007

In T€	Initial Cost				
	Jan. 1, 2007	Currency translation adjustments	Addition	Disposal	Dec. 31, 2007
Property, plant & equipment	9,625	-341	1,108	-281	10,111
Intangible assets	52,148	-3,582	0	0	48,566
Goodwill	14,886	-331	0	0	14,555
Total	**76,659**	**-4,254**	**1,108**	**-281**	**73,232**

Accumulated Depreciation					Book Value	
Jan. 1, 2008	Currency translation adjustments	Addition	Disposal	Dec. 31, 2008	Dec. 31, 2008	Dec. 31, 2007
8,309	-746	570	-2,446	5,687	1,151	1,802
1,959	9	5,617	-5,409	2,176	28,511	46,607
1,845	0	929	0	2,774	11,090	12,710
12,113	**-737**	**7,116**	**-7,855**	**10,637**	**40,752**	**61,119**

Accumulated Depreciation					Book Value	
Jan. 1, 2007	Currency translation adjustments	Addition	Disposal	Dec. 31, 2007	Dec. 31, 2007	Dec. 31, 2006
8,234	-320	676	-281	8,309	1,802	1,391
1,303	-27	683	0	1,959	46,607	50,845
1,845	0	0	0	1,845	12,710	13,041
11,382	**-347**	**1,359**	**-281**	**12,113**	**61,119**	**65,277**

Auditor's report

We have audited the consolidated financial statements prepared by MediGene AG, Planegg/Martinsried, 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, 2008 to December 31, 2008. 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 section 315a (1) German Commercial Code (HGB) 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 section 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 the 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 Code pursuant to section 315a (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, March 5, 2009

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr Napolitano
German Public Auditor

Breyer
German Public Auditor

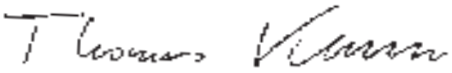
Responsibility statement

To the best of our knowledge and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

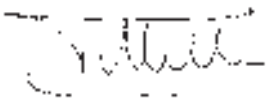
Planegg/Martinsried, March 5, 2009

The Executive Board

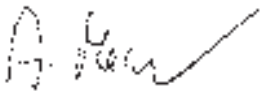
Dr Peter Heinrich
Chief Executive Officer



Dr Thomas Klaue
Chief Financial Officer



Dr Frank Mathias
Chief Operating Officer



Dr Axel Mescheder
Chief Scientific Officer and Chief Development Officer

Report from the Supervisory Board

In the 2008 financial year, the Supervisory Board performed with great care and in full extent of its statutory duties and the duties specified in the Articles of Association. On the basis of verbal and written reports by the Executive Board, the Supervisory Board kept the company's management under continuous surveillance and regularly consulted the Executive Board in the management of the company. The Supervisory Board was directly involved in all substantial decisions.

In addition to the regular Supervisory Board Meetings, the Executive Board routinely issued both written and oral reports on the current status of the research and development projects, the company'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. This was done in a timely and extensive manner.

The Supervisory Board has always paid close attention to and monitoring of the risk situation as well as the risk management and the management of the company in accordance with the law. Deviations to the plans and objectives of the business activities have been explained to the Supervisory Board in detail, and the Executive Board has coordinated the strategic alignment of the company with the Supervisory Board. All business transactions important to the company were considered in detail in the Supervisory Board Plenum. Information on the risk management implemented by the company can be found in the risk report as part of the annual report (cf. p. 11 ff).

Supervisory Board Meetings

The Supervisory Board fulfilled its obligations on the basis of detailed oral and written reports by the Executive Board, containing ongoing and comprehensive information. During the business year 2008, five Supervisory Board Meetings (February 27, 2008, May 29, 2008, July 16, 2008, October 13, 2008, and November 27, 2008) and additional conference calls were held. If required, written resolutions were taken. On specific issues, employees of the company or external experts 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.

The Executive Board regularly informed the Supervisory Board immediately of all projects and intentions of particular importance for the company outside of meetings as well. The Executive Board presented transactions requiring approval for adopting resolutions in a timely manner.

All business submitted to the Supervisory Board for which either statutory approval or approval according to the terms of the Articles of Association was required was discussed in depth with the Executive Board. The purpose of regular consultations in the Plenum was the revenue, earnings, and business development. Aside from the economic status and the current business development, the Supervisory Board paid particular attention to the corporation's strategic reorientation in the 2008 financial year as well. MediGene's focus here was on the fields of oncology and immunology. Within the scope of MediGene's focusing activities and after detailed discussions, the earlier planned set-up of an own European sales and marketing network for dermatology products was stopped and decided to sell these products via suitable partners. Furthermore, the spin-off of research activities at the Oxford location was an important part of the strategic reorientation.

At the meeting on February 27, 2008, the Supervisory Board dealt above all with the annual and consolidated financial statements as of December 31, 2007 and the corporate planning for the 2008 financial year. Also, the objectives for the 2008 financial year were defined in the scope of this meeting.

On May 29, 2008, the Supervisory Board dealt with important structural positions at MediGene AG, and laid the foundations for a realignment of the company's focal points in the fields of oncology and immunology and adopted these. The starting points in doing so were the preliminary yet promising figures from the clinical EndoTAG™-1 development programs available since March 2008. Furthermore, advice was given on the possibility of spinning off the research activities at the Oxford location, and the Supervisory Board was informed about the state of activities at our subsidiaries.Additionally, the annual shareholders' meeting was prepared in the scope of this meeting.

At the meeting on July 16, 2008, the Executive Board informed the Supervisory Board about the first steps in implementing the strategic realignment of the enterprise, the progress made in the search for partners for MediGene's dermatology products, the spin-off of research activities at the Oxford location, and the investment in Immunocore Ltd. The Supervisory Board and the Executive Board have also discussed in detail the unfortunate developments of the RhuDex™ project.

The strategic considerations regarding the further development of EndoTAG™-1 appeared on the agenda of the meeting on October 13, 2008. Also, the new rules of representation for the Executive Board of MediGene AG were discussed and enacted in the scope of this meeting. The strategic concept in continuing the clinical development program for RhuDex™ was subject to discussions.

The budget planning for 2009 was discussed in detail in the scope of the meeting on November 27, 2008, and the budget for the upcoming financial year was adopted. Fundamental decisions on the further company financing were also discussed and agreed upon. The Supervisory Board considered questions on reaching the goals for 2008 and the remuneration of the Executive Board in its absence at this meeting. Detailed explanations on the amount and structure of the remuneration can be found in the compensation report (cf. p. 65 f).

Also, the efficiency audit of the Supervisory Board was subject to discussion. This activity will be continued and should contribute to a constant improvement in the effectiveness of the Supervisory Board's work.

Supervisory Board committees

During the entire 2008 financial year, both a Compensation Committee and an Audit Committee existed.

The two committees each convened four times during the course of 2008.

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. Major topic of consultation was the contract governing the appointment of the new Executive Board member Dr Axel Mescheder, after Dr Ulrich Delvos had left the company in May 2008 by mutual consent.

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 with the auditors. It obtained the declaration of impartiality of the auditor in accordance with number 7.2.1 of the German Corporate Governance Code, and monitored the impartiality of the auditor. The Audit Committee, in the presence of the auditor and the Chief Financial Officer, dealt with the audit of the annual and consolidated financial statements of MediGene AG and the audit review of the interim reports. The Audit Committee regularly discussed the half-year and quarterly reports with the Executive Board prior to publishing these.

The committees regularly informed the Supervisory Board Plenum about its work and discussions in the following Supervisory Board meeting.

Corporate Governance

In 2008, the Supervisory Board also dealt with MediGene's compliance with of the recommendations of the German Corporate Governance Code. The Executive Board and Supervisory Board intensively discussed the adoption of the Code at MediGene AG at the Supervisory Board meeting on November 27, 2008 and also issued the annual declaration of compliance in accordance with section 161 of the German Company Act (AktG) on that date. This was made permanently available to shareholders on the company's website. The Executive Board and the Supervisory Board have committed themselves to follow the recommendations of the German Corporate Governance Code accordingly. The Executive Board also reported on corporate governance at MediGene AG in accordance with number 3.10 of the German Corporate Governance Code in the Corporate Governance Report (cf. p. 77 ff). This was, at the same time, also intended for the Supervisory Board.

In the 2008 financial year, there were no conflicts of interest that the members of the Executive and Supervisory Boards were required to disclose to the Supervisory Board immediately or to report on at the annual shareholders' meeting.

Members of the Supervisory Board
The composition of the Supervisory Board changed as follows in 2008:

On February 4, 2008, Dr Thomas Strüngmann was appointed member of the Supervisory Board by the Munich Local Court (court of registration).

Mr James Noble resigned from his post as member of the Supervisory Board effective from February 29, 2008.

Dr Thomas Strüngmann and Mr Mathias Albert Boehringer were appointed members of the Supervisory Board by the annual shareholders' meeting of MediGene AG on July 16, 2008.

Dr Thomas Strüngmann resigned from his post as member of the Supervisory Board, effective from December 31, 2008.

Individual and consolidated annual 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 for the 2008 financial year issued by the Executive Board in accordance with the rules of the German Commercial Code (HGB) as well as the management's discussion and analysis of MediGene AG, and granted them an unqualified Independent Auditor's Report. The Audit Committee had commissioned the audit in accordance with the resolution of the annual shareholders' meeting on July 16, 2008. The consolidated financial statements of MediGene AG were prepared on the basis of the international accounting standards as applicable throughout the EU, and the additional requirements pursuant to section 315a (I) German Commercial Code (HGB). The auditor also issued an unqualified Independent Auditor's Report for these consolidated financial statements and the Group management's discussion and analysis.

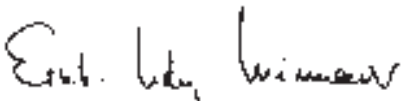
The Audit Committee together with the auditors defined the focal points of the audit for the reporting year.

All Supervisory Board members received all balance sheet and income statements and the auditor's reports in a timely manner. They were examined in full detail by the Audit Committee and the Supervisory Board on March 5, 2009 and discussed in the presence of the auditor, who reported on the results of the audit. The auditor participated in the balance sheet meeting, reporting on the most important results of his audit and making himself available for supplemental questions and information.

The Supervisory Board endorsed the auditor's findings after its own examination of the individual and consolidated annual financial statements, the management's discussion and analysis, and the Group management's discussion and analysis. In its meeting on March 5, 2009, it approved the individual and consolidated annual financial statements for the 2008 financial year in accordance with the recommendation of the Audit Committee. The financial statements 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 2008 financial year. Together, they once again turned out an outstanding result in the lapsed financial year.

Planegg/Martinsried, March 2009



Prof Dr Ernst-Ludwig Winnacker
Supervisory Board Chairman

Corporate Governance

The Executive Board reports on corporate governance at MediGene AG in accordance with number 3.10 of the German Corporate Governance Code and, at the same time, is also intended for the Supervisory Board as follows:

MediGene's Executive Board and Supervisory Boards are aware of the company's responsibility towards its shareholders, employees, and business partners. For the purpose of a value-based corporate management, MediGene has therefore adopted the German Corporate Governance Code (as amended on June 6, 2008) to a great extent, thereby surpassing the legal provisions. The recommendations and proposals of the German Corporate Governance Code are made by a commission set up by the German Federal Government and are comprised of internationally and nationally accepted standards regarding the good and responsible management of companies. The aim of the Executive Board and Supervisory Board of MediGene AG is to confirm the trust that investors, financial markets, business partners, employees, and the public have bestowed upon them, and to enhance the corporate governance within the Group.

Corporate Governance ensures the following basic principles:

- **It describes the major rights of the shareholders,**
- **it defines clear management principles and the respective responsibilities for the individual company bodies,**
- **it regulates the interaction between these bodies,**
- **it demands straightforward and transparent communication with the public, and**
- **it requires conscientious and reliable accounting and auditing.**

Corporate Governance Code and Declaration of Compliance

MediGene's Corporate Governance Code is accessible on our website at http://www.medigene.de/englisch/corporate_governance.php. This also applies to the official Declaration of Compliance by MediGene's Executive and Supervisory Boards in accordance with section 161 German Company Act (AktG). With regard to a few individual items, MediGene has, after thorough deliberation, decided not to act in full accordance with the Code. These items are specified in the declaration. Comments on the reasons for non-compliance are given in the report at hand (cf. p. 80 f).

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 shareholders' 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 company, 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, reporting obligations, and Corporate Governance on its website www.medigene.com under the headings »News« and »Investor Relations«. MediGene regularly informs on the state of the research and development programs, as well as other business developments in conference calls, analyst meetings and at international investor conferences.

The annual shareholders' meeting for MediGene AG is prepared with the goal of informing all shareholders extensively and effectively before, during, and after the meeting. In addition, MediGene also aims to assist shareholders in registering for the meeting and exercising their rights. With the annual report, the shareholders are comprehensively informed on the lapsed financial year even prior to the annual shareholders' meeting. The conditions of participation are explained in the invitation to the meeting. All documents and information pertaining to the meeting can be found on the MediGene website. Members of MediGene's Investor Relations department are available to shareholders to answer any questions either online or by telephone prior the annual shareholders' meeting. Following the annual shareholders' meeting Medigene publishes the attendance and the voting results online. This allows MediGene to secure and simplify the exchange of information between MediGene and the shareholders in all matters regarding the meeting.

At the annual shareholders' meeting, shareholders may either exercise their voting right personally, or on their behalf by way of a delegate of their choosing or by one of the company's voting proxies bound by instructions.

Executive Board
The Executive Board and each individual Board member, is conducting the company's business with the due care and diligence of a precise and conscientious executive officer in accordance with governing law, the Articles of Association, and the Executive Board's bylaws. The Executive Board manages the company at its own responsibility. In doing so, it is obliged to act in the company's best interests and is 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 to supervise and support the management and achievement of MediGene's long-term goals. There are no former members of the Executive Board on the Supervisory Board of MediGene AG. This guarantees the impartial consultation and supervision of the Executive Board.

Cooperation between the Executive Board and the Supervisory Board
The Executive Board and the Supervisory Board cooperate closely to the benefit of the company. The Chairman of the Supervisory Board keeps in regular and intensive contact with the Executive Board, especially with the Chief Executive Officer. The Executive Board coordinates the company's strategic alignment with the Supervisory Board, and they jointly discuss at regular intervals the status of the research and development projects, business planning and development, strategy implementation, and the company's risk situation and risk management. Deviations of the business activities from the plans and objectives compiled are thereby explained and justified. For transactions of fundamental importance, the Supervisory Board specifies provisions in the Executive Board's bylaws that are subject to the Supervisory Board's approval. This includes, for example, 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 of June 6, 2008, number 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 (HGB), section 289 (II)(5) requires a compensation report on the Executive Board member's remuneration as well, even though 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 to facilitate a transparent as well as intelligible presentation, the remuneration of the company bodies is reported in the »Compensation Report« chapter of the Group management's discussion and analysis and the Notes to the consolidated financial statements, adopting the guidelines of the Corporate Governance Code. Remuneration of Executive and Supervisory Board members is reported on pages 10 ff and 65 ff of the annual report and can be accessed 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 every year. The long-term compensation components consist of stock options. This should 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 the 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 towards practical needs helps the company to identify risks at an early stage and take corrective action promptly. On pages 11 ff of the Group management 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. The Supervisory Board discusses the consolidated financial statements as well as the half-year and quarterly reports with the Executive Board prior to publishing these. Consolidated reporting complies with the International Financial Reporting Standards (IFRS) as adopted in the EU. 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 (HGB)). The con-

solidated 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 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 issue 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 exercising 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 sixty trading days prior to the date on which the respective options were issued, or to the opening price of the MediGene share on the allotment date, whichever value is higher. The holders of subscription 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 17 f and 51 ff of the annual report.

2006 stock option plan

During the annual shareholders' 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 must be observed before converting these into shares. The option right may be exercised for a maximum period of ten 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 option rights have a term of ten years. No more options will be issued from the 2006 stock option plan.

2007 stock option plan

The authorization of the Executive Board to issue stock options to employees of affiliated companies at home or abroad was not subject of the shareholders' resolution on June 2, 2006. In September 2006 MediGene acquired the UK-based company Avidex Ltd. In order to create the opportunity to grant to Avidex's approximately 40 employees MediGene stock options as well, the existing 2006 shareholders' resolution was replaced by a new shareholders' resolution during the annual shareholders' meeting on May 25, 2007. This new resolution provides 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 (cf. p. 17 f and 51 ff). From this stock option plan, 550,533 options were issued in the year 2008.

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 17 f and 51 ff of the annual report.

Directors' dealings

Under section 15 a of the German Securities Trading Act (WpHG), 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 of such transactions within five business days and the company must publish the transactions 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 2008 were subject to notification:

Directors' dealings in 2008

Name of Board Member	Function	Classification of share	ISIN	Trans-action	Place of transaction	Date of transaction	Price per share in €	Number of shares	Deal volume in €
Sebastian Freitag	Supervisory Board Member	Share	DE0005020903	Purchase	Frankfurt	July 8, 2008	4.80	2,500	12,000
Dr Thomas Klaue	Executive Board Member	Share	DE0005020903	Purchase	Frankfurt	Nov. 21, 2008	3.66	1,500	5,490
Dr Peter Heinrich	Executive Board Member	Share	DE0005020903	Purchase	Frankfurt	Nov. 21, 2008	3.68	1,104	4,062.72
Dr Peter Heinrich	Executive Board Member	Share	DE0005020903	Purchase	Frankfurt	Nov. 21, 2008	3.66	160	585,60
Dr Peter Heinrich	Executive Board Member	Share	DE0005020903	Purchase	Frankfurt	Nov. 21, 2008	3.67	736	2,701.12
Dr Axel Mescheder	Executive Board Member	Share	DE0005020903	Purchase	Xetra	Nov. 24, 2008	3.47	1,500	5,205

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

The following specifies the exceptions from the recommendations of the German Corporate Governance Code according to section 161 of the German Company Act (AktG):

Deductible in the case of D&O insurance

The German Corporate Governance Code recommends in paragraph 3.8 that an appropriate deductible is agreed upon for liability insurance policies that the company takes out for its Executive and Supervisory Board members (Directors' and Officers' Liability Insurance – D&O insurance). 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 US or in compliance with applicable US law. Both the Executive and Supervisory Boards believe that the sense of responsibility applied in the fulfilment 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 German Corporate Governance Code recommends in number 4.2.3 a reference to ambitious, relevant comparative parameters for the issue of stock options in the course of the remuneration of Executive Board members. This reference recommended by the German Corporate Governance Code is not included in the stock option plans of MediGene AG. MediGene's 2006 and 2007 stock options plans (agreed upon by the annual shareholders' meetings on June 2, 2006 and May 25, 2007) stipulate that upon exercising 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 exercising 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 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 indices. The Executive Board and Supervisory Boards are of the opinion that the stock option program defines sufficiently demanding success hurdles, as both the company itself and its shareholders will benefit from an absolute increase in the company's value.

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

The German Corporate Governance Code recommends in number 4.2.3 that a limitation (cap) is agreed upon by the Supervisory Board for extraordinary, unforeseen developments in the long-term variable remuneration components of Executive Board members. 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 company, since it is impossible to predict in which cases the criteria of an extraordinary, unforeseen development would be met.

Age limits for Executive and Supervisory Board members

The German Corporate Governance Code recommends in numbers 5.1.2 and 5.4.1 that age limits are set for Executive Board and Supervisory Board members. There is no age limit for the Executive Board and Supervisory Board members of MediGene AG. Both the Executive Board and Supervisory Board 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 in number 5.3.3 the formation of a nomination committee by the Supervisory Board that is composed exclusively of shareholder representatives and proposes suitable candidates to the Supervisory Board for recommendation to the annual shareholders' meeting. Up to now, such a nomination committee has not been formed by the Supervisory Board of MediGene AG. 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 Supervisory Board is able to perform this task by itself without any loss of efficiency.

Consideration of committee work in the compensation of Supervisory Board members

The German Corporate Governance Code recommends in number 5.4.6 to take membership in Supervisory Board committees into consideration in the remuneration 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.

Performance-related remuneration of the Supervisory Board members

The German Corporate Governance Code recommends in number 5.4.6 that the members of the Supervisory Board receive a performance-related remuneration in addition to the fixed compensation. The Supervisory Board members of MediGene AG do not receive performance-related remuneration to date. For legal reasons, MediGene is abstaining from continuing the performance-related remuneration for Supervisory Board members in the form of convertible bonds. Regardless of this, the Executive and Supervisory Boards believe the current remuneration of the Supervisory Board is appropriate.

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 adoption of the German Corporate Governance Code to the Executive and Supervisory Boards at least once a year. This allows MediGene to ensure that these principles are continuously observed within the company. By means of analysis, supervision, and transparency, MediGene lays the foundations for fair and efficient corporate management. This will also remain our standard in the future.

Glossary

A

AAVLP
Adeno-associated virus-like particle, AAV-like particle

Absorption
Route of a substance into a biological system

Actinic keratosis
Precursor of malignant spinocellular carcinoma

AktG
»Aktiengesetz«
German Companies Act

Authorized Capital
Value or number of shares authorized in advance by the company's annual shareholders' meeting for the purpose of a possible capital increase against contribution in cash or other than cash

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, and the product candidates derived from these technologies, as well as the drug candidates RhuDex™, the L1 project and the AAVLP technology

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 elements

C

Catechines
Natural substances contained in green tea

CD4+ T cells
Cells of the immune system (T lymphocytes) with the CD4 receptor on their surface

CD80 antagonist
Prevents the interaction of the surface protein CD80 with specific receptors

CGU
»Cash-generating unit«

Colorectal cancer
Malignant tumors of the intestinal tract

Conditional capital
Capital authorized by shareholders' resolution for the issue of stock options or convertible bonds

Cytostatic drugs
Synthetic or natural substances inhibiting cell growth or cell division

D

D&O insurance
»Directors and officers insurance«
A managers' liability insurance effected by a company for its board members and officers

DBO
»Defined benefit obligation«
Value of an obligation arising from company pension scheme

Depot formulation
Drug in the form of an implant which slowly disintegrates and releases the active substance over a set period of time

Dermatology
Branch of medicine that deals with the treatment of skin diseases as well as benign and malignant skin tumors

Drug candidate
Drug which is still at the development stage

E

EBITDA
Earnings before interest, taxes, depreciation of property, plant, and equipment, and amortization of intangible assets

G

Galenics
Dosage form of a drug

Generic drug
Copy of a drug already available on the market, containing the same active ingredient

Genital warts
Benign but painful and disfiguring skin tumors in the genital and anal areas

GMP
»Good Manufacturing Practice«
Quality assurance guidelines for production processes and environments in the manufacture of drugs

H

HGB
»Handelsgesetzbuch«
German Commercial Code

I

IAS
»International Accounting Standards«
Part of the International Financial Reporting Standards

IFRIC
»International Financial Reporting Interpretations Committee«

IFRS
»International Financial Reporting Standards«
Internationally recognized financial reporting standard

Indication
Reason for the execution of a medical examination or treatment

In vitro
Processes/tests that take place outside a living organism (lat.: »in a glass«)

L

Licensing
Sale or acquisition of development and/or marketing rights to a product

Liposomes
Minute, hollow globules, composed of fat molecules

M

MHRA
Medicines and Healthcare Products Regulatory Agency, Great Britain

O

Oncology
Science of tumors and tumor-related diseases

Oncolytic herpes simplex viruses
Genetically modified herpes simplex viruses which attack and destroy cancer cells, but are unable to replicate in healthy cells

Ovarian carcinoma
Malignant tumor of the ovaries

P

Pancreatic cancer
Malignant tumors of the pancreas

Pharmaceutics
Science that deals with the composition, effect, development, testing, production, and dispensing of drugs

Pipeline
All the drug candidates that are under development

Placebo
Compound without active pharmaceutical ingredient, thus pharmacologically ineffective

Progression-free survival
Length of time for which tumor growth has been stopped

Prophylactic vaccine
Preventive vaccine which prepares the immune system for the defense against future infections

Prostate cancer
Malignant tumors of the prostate gland (part of the male crotch)

R

Rheumatoid arthritis
Inflammatory diseases affecting the joints

S

Speciality Pharma
The Specialty Pharma segment encompasses Medigene's drug Eligard®, Veregen® (Polyphenon E® Ointment)

T

T-cell receptors
Receptor by which T cells recognize antigens bound to other cells of the body

TecDAX
Index of the German Stock Exchange listing the 30 major technology equities with respect to market capitalization and order book turnover

Technology platform
Technology that is the basis for the development of different drug candidates

Therapeutic vaccine
Targets the immune system at an acute infection, or at an already existing tumor

Triple receptor-negative breast cancer
Malignant breast tumors that display neiter estrogene/gestagene nor HER-2 receptors on the cell surface are termed »triple receptor-negative«

Financial calendar

March 31, 2009
2008 Annual Report
Financial press conference and analysts' teleconference

May 15, 2009
First-quarter report, Analysts' teleconference

May 29, 2009
Annual shareholders' meeting

August 7, 2009
First-half report, Analysts' teleconference

November 13, 2009
Third-quarter report, Analysts' teleconference

Trademarks

Eligard®
is a trademark of QLT USA, Inc.

EndoTAG™
is a trademark of MediGene AG.

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Imprint

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Concept and text
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Concept and design
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Germany

Production
Peschke Druck, Munich
Germany

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transparent
active in biotech

www.medigene.com