MediGene

Innovation × Investment = Growth

Annual Report 2006

Key figures

MediGene Group, IFRS

In T€	2006	2005	Change
Income statements			
Revenues	**30,549**	19,555	56%
Other operating income	**675**	127	>200%
Gross profit	**20,555**	10,605	94%
Cost of goods sold	**10,669**	9,077	18%
Selling, general, and administrative expenses	**7,639**	6,123	25%
Research and development expenses	**21,275**	15,997	33%
Operating result (EBIT)	**-8,359**	-11,515	27%
Result before income tax	**-7,606**	-12,044	37%
Net result	**-6,891**	-12,045	43%
Result per share (undiluted)	**-0.31**	-0.65	53%
Weighted average number of shares	**22,410,901**	18,560,027	21%
Personnel expenses	**11,801**	9,931	19%
Cash flow			
Cash flow from operating activities	**-2,553**	-11,217	77%
Cash flow from investing activities	**1,996**	-413	-583%
Cash flow from financing activities	**15,311**	841	>200%
Balance sheet data			
Cash and cash equivalents	**52,498**	37,625	40%
Balance sheet total	**124,136**	57,062	118%
Current liabilities	**14,358**	4,973	189%
Long-term liabilities	**1,266**	312	>200%
Shareholders' equity	**108,512**	51,777	110%
Equity ratio	**87%**	91%	-4%
Employees as at Dec. 31	**171**	**114**	**50%**
MediGene share			
Number of shares issued as at Dec. 31	**28,653,630**	18,766,172	53%
share price (closing price, XETRA)	**6.97**	8.36	-17%
Dividend in €	**0**	0	–

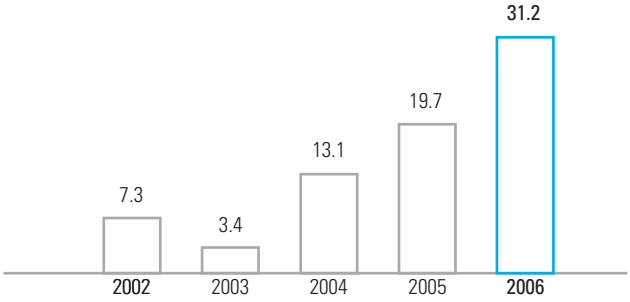
Broad pipeline of innovative drugs

Product	Indication	Preclinic/ Research	Clinical phase I	Clinical phase II	Clinical phase III	Approval	Marketed	Peak sales potential[1] (in million €)
Eligard® [2] see page 27	Prostate cancer							>100[3]
Polyphenon® E Ointment see page 28	Genital warts							>150[4]
	Actinic keratosis[5]							>200
Oracea™ see page 29	Rosacea							>20
EndoTAG™-1 see page 30	Pancreatic cancer							>200
	Breast cancer							>1,000
	Additional solid tumors							>400
RhuDex® see page 31	Rheumatoid arthritis							>1,000
HSV (NV1020) see page 32	Colon liver metastases							>300
HSV (G207) see page 32	Glioblastoma							>200
mTCR see page 33	Cancer and autoimmune diseases							>1,000
Chance of reaching the market			10–30%	30–60%	60–80%	80–90%		

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

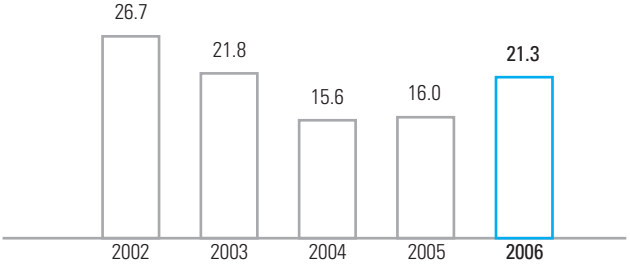
Total revenues

In million €



Research & development expenses

In million €



Survey of the year 2006

January
MediGene and Bradley Pharmaceuticals enter into marketing partnership for the commercialization of Polyphenon® E Ointment in the USA.

February
MediGene obtains European patent on Polyphenon® E Ointment.

Eligard® launched in France and in other European countries.

March
MediGene AG decides to raise 15.6 million € in a share capital increase.

MediGene receives a 1.4 million € research grant for the further development of the EndoTAG™ technology.

MediGene significantly increased revenues and improved the result in 2005.

May
First quarter 2006 revenues increased by 73%.

MediGene presents positive safety data from the clinical phase I/II trial of cancer-killing virus NV1020.

June
MediGene receives another research grant for the expansion of the EndoTAG™ technology.

FDA extends deadline for review (PDUFA date) of Polyphenon® E Ointment to October 31, 2006.

July
MediGene and German Cancer Research Center jointly develop antibody against ovarian cancer.

August
MediGene significantly increased six-months revenues and result.

MediGene signs agreement to acquire UK-based Avidex Ltd.

September
Dose-finding trial of oncolytic virus NV1020 for the treatment of liver metastases shows efficacy trends.

MediGene obtains US patent on EndoTAG™-1.

October
Orphan drug designation for MediGene's drug candidate EndoTAG™-1.

MediGene AG obtains approval for its Polyphenon® E Ointment in the USA.

November
MediGene increased nine-months revenues and result.

MediGene AG upgrades patent portfolio to protect cancer-killing viruses (oncolytic HSV).

December
Six-months product of MediGene's anti-cancer drug Eligard® obtains approval for Germany.

Market launch of Eligard® in major European countries completed.

MediGene and Sanofi Pasteur agree upon research collaboration.

MediGene's acquisition of a license on Oracea™ gives the signal for sales organization buildup.

Positive interim results in clinical phase II trial of EndoTAG™-1 against pancreatic cancer.

2007

January
MediGene initiates a clinical phase IIa trial of RhuDex® in rheumatoid arthritis.

February
MediGene AG raises 12.6 million € in a share capital increase.

By the development and commercialization of innovative drugs we want to help patients lead a better life, and to establish a successful biotechnology company for our shareholders with the opportunity for them to participate in its value creation.

MediGene possesses a well-balanced portfolio providing drugs ready for the market as well as the opportunity for future innovations. MediGene is the first German biotech company with a drug on the market, which is distributed by a partner from the pharmaceuticals industry, and several other drugs on the verge of marketing authorization. In addition, MediGene has a number of projects in clinical development, and possesses proprietary technologies for the development of other promising substances. Future innovations shall be financed by means of MediGene's own drug sales force, and by means of development and marketing partnerships. MediGene's future lies in the balance between market strength and innovation.

Contents

Dear Shareholders,
Ladies and Gentlemen,

»Multiply« – the motto of this year's annual report stands for our company's growth during 2006. We have grown – through the acquisition of another company. We have enriched our range of products – by both the acquisition of licenses and the extension of our proprietary development. We have invested a lot, thus greatly increasing MediGene's opportunities. This changes MediGene's future.

What other tangible results did 2006 yield? MediGene's business development has seldom been so effective: we were the first German biotech company to obtain approval for a drug in the USA. Following the European marketing authorization for Eligard®, this approval for Polyphenon® E was the second for MediGene. We entered into a marketing partnership for this drug with a qualified US company. We were able to report positive interim results of ongoing clinical trials of our innovative anti-cancer drugs no less than twice. We obtained several important patents. We entered into two attractive research cooperation agreements. Once more we significantly improved our result for the year: revenues increased by more than 50 percent to 31 million euros, and the loss was reduced by more than 40 percent to seven million euros. In addition, we were able to further improve our cash position by means of successful capital increases.

Was it enough? Although we had – in my opinion – a very impressive series of positive news to announce, MediGene's share price dropped by 16 percent during the year, despite a few highs. I must admit that I can only partially understand this very disappointing development. Apparently the continuing uncertainty as to whether our Polyphenon® E Ointment would be approved, in connection with our announcement that we might fail to reach our target, resulted in a strong downward trend of the share price. Even the highly positive fact that approval was granted could only partially compensate for this. We had the US approval for the Polyphenon® E Ointment in our hands! What a great success! No other German and only very few European biotech companies have ever accomplished anything similar. The MediGene share price recovered, however cautiously. Towards the end of the year the share price dropped again, despite some intermediate highs following a number of positive announcements. Neither you nor I can be happy about this.

Nevertheless, this is already the second time in succession that we have chosen the heading »growth.« We had predicted growth for the year 2006 – and grew even more than we had promised. The acquisition of the UK-based biotech company Avidex largely contributed to this. We gained a clinical drug candidate with

billion euro potential – RhuDex® – as well as groundbreaking platform technology from which several other drug candidates have already emanated. Such high quality has its price. The acquisition cost MediGene about 50 million euros, in the form of newly issued MediGene shares. And this acquisition was worth another price: the break-even point we had aimed at for 2006 was postponed. This was very disappointing for many shareholders. However, at that time I also announced that we would continue to review all opportunities for acquisitions in order to broaden MediGene's product portfolio. MediGene has opted for this alternative, thus investing in the future, at the expense of a rapid profit. However, we increased MediGene's opportunities to create innovations, enabling us to realize high returns in the long run. I am very proud that we brought this acquisition to a successful conclusion.

I am also proud of some other important progress our company has made: through the acquisition of the European marketing rights to the drug Oracea™ at the end of 2006, MediGene laid the foundations for its own sales force. Meanwhile the company has started establishing its sales organization and expects to be able to launch the first product this financial year. In this way, we have taken the final step in our long-time strategy of integrating all core areas of today's drug development into our company: from research through drug development to drug commercialization.

Some people have asked me why this goal is so desirable. The answer to this is simple: the sale of drugs creates the greatest value in the pharmaceutical industry. The revenues from the sale of licensed products is not sufficient in the long run to build up a pharmaceutical business that yields enduring profits, and that is in a position to increase added value and to finance new research and development projects. With our own sales force in some selected countries we will be able to make much more profit from our products, and, in addition, increase our attractiveness as a licensee and marketing partner for other products.

»Innovation x investment = growth.« This formula, which heads this annual report, will also apply to the current financial year. It names two crucial factors in MediGene's past and future growth:

»Innovation« stands for those development projects which we drove forward significantly in 2006. This annual report provides detailed information on this. In 2007, we will also pursue the following additional goals: after initiation of a phase IIa trial of RhuDex® in January 2007, a phase II trial of EndoTAG™-1 will begin in the first three months of this year. We will submit new drug applications for our Polyphenon® E Ointment in Europe. This drug is scheduled to be launched in the USA in the second half of 2007. We expect to obtain marketing authorization for Oracea™ in Europe soon, which will enable us to launch the product before the end of this year. The establishment of a MediGene sales organization for Germany should be completed by then. These plans require great commitment.

The growth factor »investment« was already enhanced in 2006, by the acquisition of Avidex. In 2007, our expenditure will continue to increase significantly: through the establishment of our drug sales force, the extension of our clinical trials, and increasing research and development expenses for the Avidex projects. The annual loss for 2007 will increase for the first time in years to about 35 million euros, with moderately increasing revenues of 35 million euros. MediGene is planning to considerably reduce this loss quickly and steadily as early as 2008.

As a whole, the German and European biotech industry developed positively in 2006. There was significant progress in the drug development project, as well as several financing rounds. MediGene's position in this environment is very strong, even leading. We intend to further strengthen this position.

During the current financial year, we will continue to invest systematically in order to create a successful future for MediGene. I feel confident that our efforts will pay off. With its broad portfolio of innovative products and proprietary platform technologies, and its excellent employees and partners, I think that MediGene is very well positioned to achieve our ambitious goals for 2007 and beyond.

Thank you for the confidence you have placed in us.

Sincerely,

Dr Peter Heinrich

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

Management

of the MediGene AG

Dr Peter Heinrich is a co-founder of MediGene and has been Chief Executive Officer of the company since 1995. Prior to this position, he worked for Wacker Chemie AG, Munich for nearly eight years where he held various positions, e.g. in biopharmaceutical/biochemical research and in the company's management. Among other things, Dr Heinrich was responsible for the establishment of the biotechnology division at Wacker, and he also worked for the international alliance management. Dr Peter Heinrich studied biology and chemistry at the University of Munich where he received a PhD in biochemistry. After that he worked as a post-doc scientist at Harvard University. Dr Peter Heinrich is co-founder and President of the Board of the BIO Deutschland, an independent association of the German biotech industry located in Berlin. He is also a Board Member of the European Biopharmaceutical Enterprises (EBE), an interest group of European biopharmaceutical companies. From 2003 until 2006 he served as EBE's President.

Besides that, Dr Heinrich is an advisory council member at the VCI (German chemical industry association), and a Board of Trustees member at Bayern Innovativ GmbH. In addition, he is a member of the German Economic Affairs Council (federal expert commission for growth & innovation), and a mentor and tutor at the Bayerische Eliteakademie. He is also a supervisory board member of the MBA program at the University of Augsburg.

Ulrich Delvos, MD, PhD
Member of the Board for Research & Development

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

Alexander Dexne
Chief Financial Officer

Alexander Dexne joined MediGene AG as their Chief Financial Officer on May 1st 2002. After his business studies in Göttingen and his MBA in New Zealand, Mr Dexne gathered 10 years experience in various positions with the consulting company PricewaterhouseCoopers and the Japanese Olympus Group. At PricewaterhouseCoopers he was in charge of reorganisation, MBOs and controlling in the financial management consulting team. Later he joined Olympus Diagnostica, where he was part of the Executive Board of Directors and was responsible for Finance and Accounting, Financial Planning and Controlling, Logistics and the Inside Sales team. Thereafter he was promoted to General Manager Finance & Controlling Europe and a member of the extended Board of Directors of the European Headquarters of Olympus. He left Olympus to become the CFO and COO of the internet company Kiwilogic AG.

> *fig. 1*

Figure: each drug manufacturer has to provide evidence of a drug's efficacy, safety, and pharmaceutical quality in order to obtain marketing authorization. State authorities decide whether the requirements for market authorization are met. In the USA, this authoritiy is the Food and Drug Administration (FDA).

We conquer markets.

Drug approval

Our drug Polyphenon® E Ointment obtained approval for the USA in 2006. The drug Oracea™ is expected to be approved in Europe in 2007. Both products provide a basis for MediGene's drug sales.

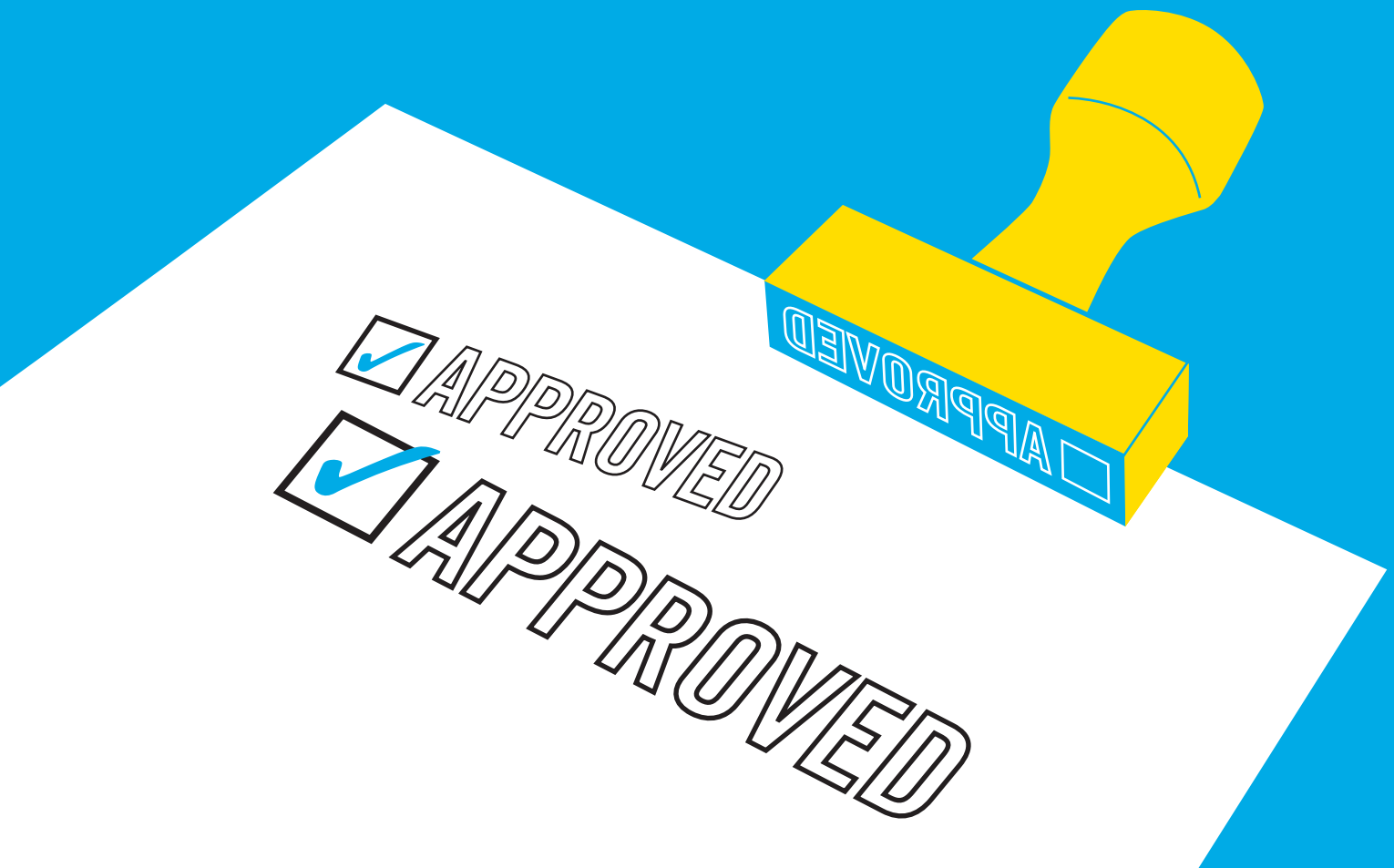
Market launch

MediGene's drug Eligard® is commercialized by the company's partner Astellas and has been available on the European market since 2004. MediGene participates in sales which increase each year.

Increasing sales

By establishing its own sales force and selling drugs, MediGene is planning to isignificantly increase sales revenues over the next few years.

$$2 \times 1 = x^2$$



Turn drugs into reality

It is MediGene's objective to realize ideas, to research therapeutic approaches, to develop them, and to put them into practice. We develop drugs that are intended to help people and to create value. Establishing our own sales force will allow us to keep the last link of the value creation chain in our hands. This should increase revenues and results of our company.

Second drug approval

MediGene has been pioneering for years now. With the acquisition of the anti-cancer drug Eligard® in 2004, MediGene became the first German biotech company to have a drug on the market. This leading position was consolidated in 2006 when MediGene obtained approval for Polyphenon® E Ointment in the USA – and thus the first approval to be granted by the US regulatory authority FDA to a German biotech company. In 2007, MediGene expects to obtain another approval: the drug Oracea™ is expected to be approved for Germany as well as additional European countries. Only very few European companies in this industry are as close to the market as MediGene, a research-oriented biotech company.

MediGene has demonstrated that it controls the full range of measures in every stage of drug development. For more than seven years the company took the Polyphenon® E Ointment through the three phases of clinical development, i.e. tolerability analysis of the drug, determination of the appropriate dosage, and efficacy testing of the drug in patients. The formulation and manufacturing process of the Polyphenon® E Ointment were also developed under MediGene's direction. More than 1,000 patients received treatment with Polyphenon® E Ointment in clinical trials conducted by more than 100 clinics in 15 countries. The results of this extensive clinical program were convincing: the Polyphenon® E Ointment showed very good efficacy in the treatment of genital warts and only very few adverse reactions. This presented the starting point for the crucial stage in drug development, i.e. the approval procedure.

MediGene was able to draw on the experience gained during the successful European approval procedure for Eligard®. However, the New Drug Application for Polyphenon® E Ointment was submitted in the USA, which means different requirements and procedures. For example a large part of the documentation is processed in a different way, some data are assessed differently, and certain local analyses are required. The rules of communication with the regulatory authority are also different, requiring country-specific know-how and experience. For this reason MediGene's US subsidiary, MediGene, Inc., played a key role in the US approval procedure for Polyphenon® E Ointment. The MediGene teams in the USA and in Germany compiled the voluminous dossier in close collaboration, and successfully took the application through the approval procedure. The compilation of the application alone took one year, and so did the actual approval procedure. It started in September 2005 when the application was submitted and ended successfully in October 2006 with a direct marketing authorization. Less than half of all applications in the USA are directly approved; the majority of applications end up with an extensive list of deficiencies and

have to pass a second round of the procedure. The immediate approval thus shows that MediGene did an excellent job, and that the product quality is very high. The Polyphenon® E Ointment meets the medical need for a treatment for a fast-spreading sexually transmitted disease. Experts estimate the annual peak sales potential of the drug for the treatment of genital warts to be approximately 150 million € worldwide.

Acquisition of a drug ready for the market

There are various methods of adding drugs ready for the market to a product portfolio. The classic method is proprietary development. This method is lengthy, expensive and comparatively risky, but if successful, it can be very profitable. The acquisition of fully developed products offers an alternative. In this case, the company acquires a market license on a product which is in a late development stage, or which has already obtained market approval. This allows the company to skip the long development period, to minimize risks considerably, and to generate revenues quickly, which, however, have to be shared. MediGene is in a position to choose either way.

In 2006, the company made use of these alternatives: MediGene acquired a license on the Polyphenon® E Ointment, approved in October 2006, from the Canadian company Epitome, and took the drug through clinical development. On the other hand, MediGene acquired a fully developed product from the US company CollaGenex in December 2006. The dermatological drug Oracea™ had already been approved for the USA at that time, and was undergoing approval for Europe. MediGene paid about four million euros for the license to commercialize the drug for the treatment of the skin disease rosacea in Europe. The annual sales potential of Oracea™ in Europe is estimated to be at least 20 million €. Meanwhile the product has been successfully launched in the USA. MediGene is pursuing an important strategic goal with the acquisition of the Oracea™ license – to lay the foundations for the establishment of its own sales organization.

DRUG DEVELOPMENT STAGES:

- Research,
- preclinical and process development,
- clinical phases I–II,
- approval procedure.

Establishment of sales force has begun

Sales and marketing is the most profitable sector in the pharmaceutical business. For this reason MediGene has made every effort to sell its own drugs from the day the company was founded. During the past few years MediGene has come closer to achieving this goal by taking several steps: By acquiring a license for Eligard® in 2001, and the drug approval obtained in 2003, MediGene secured its market access with a drug ready for the market. MediGene's partner Astellas Pharma Europe, one of the market leaders for urological drugs in Europe, took over the commercialization of the drug for the treatment of prostate cancer. Astellas provided outstanding expertise and the necessary marketing resources which MediGene did not possess at that time. The high sales figures achieved with Eligard® verify the marketing partner's expertise, and MediGene profits by participating in the sales revenues.

SALES AND MARKETING

Sales and marketing is the most profitable sector in the pharmaceutical business. With the acquisition of the license for Oracea™, MediGene laid the foundations for the establishment of a sales organization.

MediGene's second step towards the market was more significant, passing the development of the Polyphenon® E Ointment and its approval procedure in the USA. Market launch in the USA will be conducted by another partner, i.e. Bradley Pharmaceuticals, whereas MediGene still owns the European marketing rights. The company is currently preparing the marketing authorization applications for Europe.

MediGene's third step towards the market was the acquisition of the license for Oracea™. With Oracea™ and the Polyphenon® E Ointment, MediGene possesses two innovative products ready for the market which together provide a sufficient basis for establishing a sales force. Both drugs are mainly prescribed by dermatologists and can therefore be sold together. The total annual peak sales potential of the two drugs in Europe amounts to 50 million €, making it worthwhile for MediGene to establish its own sales organization.

In 2007 we will venture to take this final step towards the market. At first, MediGene will focus on selected countries such as Germany and Great Britain, as well as the small German-speaking and English-speaking markets in Europe. Approximately 30 newly hired employees will advertise the two drugs in these countries. Building up the appropriate marketing infrastructure over the next two years will cost about five million euros, and should yield profits after that time. The preparations for the market launch of Oracea™ are well under way and we are continuing with our endeavors to conquer new markets.

Dr Kerry Kowal, Managing Director of MediGene, Inc., USA

? What does it mean to submit a New Drug Application in the USA?
Kowal: Such a marketing authorization application is an incredibly voluminous document. The total volume we submitted to the FDA was 70,000 pages! We cooperated closely with the FDA during the entire review process, as any FDA inquiries have to be answered as quickly as possible, in order to remain on schedule.

? What was the US office's part in this process?
Kowal: We are part of a regulatory affairs department that operates globally. The application dossier was compiled in Munich for the most part. The San Diego office added US-specific elements, formatted the documents according to the requirements, and coordinated and conducted the intense communication with the FDA.

? Did you go through any ups and downs during the approval process?
Kowal: Yes, we did! Of course the FDA's PDUFA date extension was very unpleasant news for us, having answered all inquiries very quickly up to that point. All the more reason to be glad and proud about obtaining immediate approval after expiration of the time limit. In most cases the FDA only certifies that the drug may be approved, and it usually takes several months until approval is actually granted. The immediate approval represents a great achievement!

? What does the approval of the Polyphenon® E Ointment mean for MediGene?
Kowal: MediGene is the first German biotech company to have a drug approved in the USA. Moreover the Polyphenon® E Ointment is the first botanical ever to be approved by the FDA. Of course we are very proud that we have achieved all that. However, the tangible commercial relevance is even more important: we expect Polyphenon® E to significantly increase our revenues.

Dr Christine Lemke, Vice President of Business Development at MediGene AG

? MediGene is planning to commercialize products by itself in the future. What does this mean for your company?
Lembke: MediGene will become visible to physicians and patients. This is a completely new stage of development. We have always been geared to the market, in order to develop and acquire competitive drugs. Our recent activities now focus on the customer.

? You acquired another drug, Oracea™. What are the reasons for this?
Lembke: Oracea™ ideally complements our Polyphenon® E Ointment. Both drugs act as immune modulators, they show particularly high tolerability, are innovative and top quality products. Both products may ideally be distributed to dermatologists simultaneously. We were especially proud that MediGene was able to acquire the license for this attractive product, since until then we did not have a sales organization of our own. This was a sign of confidence in our capability as a distributor. We will meet these expectations!

? Will MediGene continue to acquire licenses for drugs in the future as well?
Lembke: Beside our proprietary developments, we will also continue to complement our portfolio with licensed products, thereby focusing on late-stage dermatological drugs. We want to provide dermatologists with groundbreaking drugs with an excellent price-performance ratio.

> *fig. 2*

Figure: a marketing partner is an independent dealer selling the products of the partner company. The marketing partner pays royalties and makes milestone payments to the partner.

We are good at building up relationships.

1 Marketing partner

Each one of our marketing partners has excellent marketing know-how, comprehensive resources, and a tight distribution network in the relevant markets. We utilize these advantages to optimally position our products on the market.

100 Medical representatives

Medical representatives are our link to the market. They make products palpable. They are disseminators, intermediaries, and salespersons. With their knowledge and face-to-face contact they convince and win over our customers.

1×100=1,500

1,500 Customers

Physicians cultivate direct contact with the patients affected. The reliability of our products and partners inspire the confidence needed to sell our drugs successfully.

Growing through partnerships

Partnerships are relations that permit, facilitate, and enrich life. They broaden our opportunities and shift boundaries. MediGene counts on its partners in order to gain additional know-how, to share risks, and to complement one another. The combined strength facilitates progress and success.

Marketing partnership for the US market

The conclusion of strategic partnerships is one of MediGene's strengths. In 2006, MediGene entered into three important cooperation agreements, the first of which had a direct impact on the company's further development: in January, MediGene signed a partnership agreement with the US company Bradley Pharmaceuticals for the commercialization of the Polyphenon® E Ointment in the USA.

Bradley is one of the fastest growing specialty pharma companies in the United States, and holds a particularly strong position in the field of dermatological drugs. More than 100 highly qualified representatives will promote and sell the Polyphenon® E Ointment in the USA. MediGene will participate in the sales of the drug. According to the agreement, MediGene is also entitled to receive payments of up to 69 million US$. 5 million US$ were paid upon conclusion of the agreement, and 14 million US$ upon approval of the Polyphenon® E Ointment in October 2006. Further payments will become due when specific milestones are achieved, such as defined sales targets. About one third of the total amount is intended for advances in the development of the Polyphenon® E Ointment for other skin diseases, especially for the indication actinic keratosis. After market launch of the drug, Bradley Pharmaceuticals will discuss further steps in this direction. If the clinical development of the Polyphenon® E Ointment is to be extended to other indications, Bradley will bear most of the development expenses accruing.

BRADLEY PHARMACEUTICALS

Bradley Pharmaceuticals is one of the fastest growing specialty pharma companies in the USA, and holds a particularly strong position in the field of dermatological drugs. More than 100 highly qualified representatives will promote and sell the Polyphenon® E Ointment in the USA.

MediGene's signature on the cooperation agreement marked the completion of a protracted and diligent selection process. Long before, in the run-up to this process, MediGene studied and contacted companies that might be suitable marketing partners. Ultimately, Bradley Pharmaceuticals' excellent marketing expertise and its clear willingness to place MediGene's product at the center of its activities won us over. The Polyphenon® E

Ointment takes a key position in Bradley's product portfolio. MediGene believes that this offers a clear advantage over large-scale pharmaceutical groups, and is convinced that Bradley Pharmaceuticals will market the Polyphenon® E Ointment extremely successfully.

Research cooperation with the German Cancer Research Center

Beside its market orientation, MediGene also keeps track of research. The company operates its own research department, and at the same time makes use of partnerships in order to amplify its own resources. In July 2006, for instance, MediGene initiated a cooperation with the renowned German Cancer Research Center (Deutsches Krebsforschungszentrum = DKFZ) in Heidelberg, for the joint development of an antibody for the treatment of ovarian cancer. The purpose of the cooperation is to develop a monoclonal antibody against the protein L1.

This protein indicates ovarian and uterine cancer, as this specifically occurs on the cell surfaces of these malignant tumors and is rarely found in healthy tissue or benign tumors. The L1 protein seems to be especially well suited for a novel tumor marker in diagnostics and therapy, and may bridge a wide gap in ovarian cancer therapy. The DKFZ has already developed antibodies against L1, and proved their anti-tumor efficacy in animal models. Now the DKFZ and MediGene are jointly examining the antibodies' mode of action, and clinical testing is in preparation.

PROTEIN L1

MediGene secures access to a very promising technology, and opens up the opportunity to add another attractive drug candidate to the company's own pipeline.

To begin with, the research cooperation is scheduled for a period of two years. Afterwards MediGene will have the option to acquire a worldwide exclusive license for the application of anti-L1 antibodies. That way MediGene secures access to a very promising technology, and opens up the opportunity to add another attractive drug candidate to the company's own pipeline.

Research cooperation with Sanofi

In December 2006, MediGene and Sanofi Pasteur, the vaccines division of Sanofi-Aventis, signed a cooperation agreement. The companies agreed to develop MediGene's mTCR technology for the application in vaccine validation. MediGene is developing mTCRs (monoclonal T-cell receptors) which recognize specific antigens and bind to them. These mTCRs are to be used in the detection of antigen structures important in vaccine development and clinical trials. Until now, mTCRs have been developed as drug candidates.

SANOFI

MediGene has won one of the world's leading pharmaceutical companies as its cooperation partner.

The cooperation with Sanofi will provide further potential and emphasizes the versatility of MediGene's mTCR technology. The agreement also shows that it is possible to commercialize MediGene's mTCRs at an early development stage. The Sanofi-Aventis group is the world's third-largest pharmaceutical company, and the largest in Europe. So MediGene has won one of the world's leading pharmaceutical companies as its cooperation partner.

MEDIGENE'S PARTNERSHIPS WITH PHARMA AND BIOTECH COMPANIES

since 2001	QLT USA Acquisition of pan-European rights to Eligard®
since 2004	Astellas Pharma European commercialization of Eligard®
since 2006	Bradley Pharmaceuticals US commercialization of Polyphenon® E Ointment
since 2006	CollaGenex Acquisition of pan-European rights to Oracea™
since 2006	Sanofi Pasteur Research cooperation (mTCRs)

Dan Glassman, CEO of Bradley Pharmaceuticals

? Why did Bradley Pharmaceuticals choose to license Polyphenon® E?
Glassman: There were several reasons! First, we wanted a therapy with definite advantages over existing treatment modalities, which we believe is true of Polyphenon® E. Second, we wanted to license a patent-protected product, and Polyphenon® E is protected until at least 2017. Given the synergy between Bradley's expertise and the advantages of Polyphenon® E over current therapies, this licensing agreement represents a good opportunity for Bradley.

? What is the position of Polyphenon® E in Bradley's product portfolio?
Glassman: Polyphenon® E, which we will market under the trade name Veregen™, will be a primary promoted product by both of Bradley's operating units. Bradley's core expertise of providing effective, non-personal promotional support to our primary promoted products, detailed by a field force of over 100 sales representatives, will help us to make Veregen™ a success.

? How would you describe the cooperation with MediGene?
Glassman: The collaboration with MediGene has been both exciting and educational. Since we signed the licensing agreement, we have worked closely together in all aspects leading to the marketing launch, including establishing a Joint Steering Committee having regularly scheduled review meetings. This interaction has been very productive and we have accomplished a great deal in this process.

? What do you foresee in the future of the Bradley-MediGene collaboration?
Glassman: We are looking forward to performing additional clinical studies on Veregen™ to identify other therapeutic options and indications. If we discover additional opportunities, we will work with MediGene to maximize their potential.

Dr Nicola Henneberg, Vice President of Project Management at MediGene

? Which criteria did you apply in your search for a partner for the Polyphenon® E Ointment?
Henneberg: We were looking for a US company in the field of dermatology with excellent marketing expertise and a very tight distribution network. We looked at many companies and entered into negotiations with nearly ten companies, among them large-scale companies and medium-sized companies with a strong position in so-called niche markets. The overall size of a company is not the crucial factor for an individual product's success. Marketing and sales resources as well as expertise in the field relevant for the product play a much more decisive role. The importance of a product within the portfolio along with the corresponding motivation to sell it are also key factors. Bradley was number one in all of these aspects! The opportunity to keep the European marketing rights was an important prerequisite for setting up our own sales force.

? How does your cooperation work?
Henneberg: It works very well, and we enjoy working together! Moreover, Bradley adds another aspect to our partnership which has been unknown to MediGene up to now. We can learn from our partner's marketing expertise!

? MediGene is planning to market drugs by itself in the future. Will there be no more new marketing partnerships?
Henneberg: We will continue to cooperate with marketing partners in the future as well. The markets we address with our products are sizable, and for the time being MediGene will focus on some selected countries. We are confident that we will be able to win over excellent partners in the future as well. And it remains our goal to continue being a good partner.

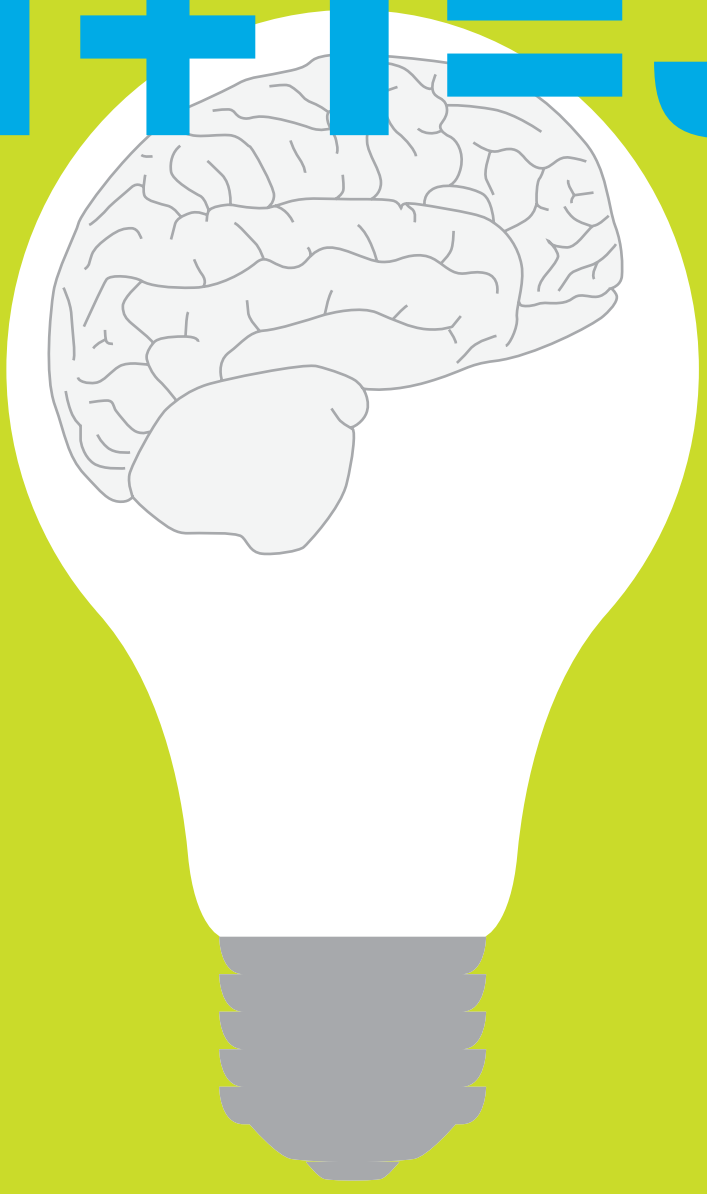
> *fig. 3*

Figure: the human brain represents a complex center of scientific curiosity and insight. Innovation is an important prerequisite of social and entrepreneurial progress.

Avidex Ltd.

– privately held biotech company based in Oxford. Avidex has groundbreaking platform technology with several drug candidates in research and preclinical development stages. The lead product, RhuDex®, is currently in clinical development and provides an estimated sales potential of more than 1 billion €.

1+1=3



MediGene AG

– a publicly quoted biotechnology company with headquarters in Germany, and a subsidiary in San Diego, USA. MediGene has one drug on the market and two other drugs ready for the market. The company possesses a broad drug pipeline and proprietary platform technologies.

Potential increased

The merger of two matching companies generates a result beyond the sum of the individual parts. The acquisition of Avidex by MediGene enhances the potentials of both companies, while bundling their powers.

We increase opportunities.

Reach critical mass

In physics, sufficient radioactive mass causes a chain reaction. In a biotech company, critical mass is reached when the enterprise's size allows further growth. For mass has a stabilizing effect, it makes you visible, and it attracts attention. A sufficiently large portfolio which balances the risks inherent in drug development, and which attracts the interest of investors and partners.

Acquisition of a company yields new products, technologies, and know-how

On August 30, 2006, MediGene announced a major event in the company's history: the acquisition of the UK-based biotech company Avidex Ltd., against shares to the amount of approximately 50 million €. As a result of this step, MediGene grew by one third of its employees, gained a subsidiary in the UK, and significantly added to its portfolio: Avidex' lead product RhuDex®, for the treatment of rheumatoid arthritis, is considered to be a blockbuster candidate with its estimated annual sales potential of more than 1 billion €, and is meanwhile undergoing a clinical phase IIa trial. Moreover, MediGene has taken groundbreaking platform technology on board, i.e. mTCR technology. Several drug candidates have already emanated from this platform technology, all of them at the research stage. This gain from the acquisition of Avidex turned MediGene's product portfolio into one of the leading portfolios in the European biotech industry.

BLOCKBUSTER:
a product with an estimated annual sales potential of more than 1 billion €.

Avidex' research and development activities span an extremely interesting sector: therapies on the basis of T-cell receptors rank among state-of-the-art biotechnological approaches in the combat against cancer and autoimmune diseases. On the basis of this technology, MediGene expects to develop highly competitive drugs, and to be able to conclude more partnerships in the future.

MODERN BIOTECHNOLOGY
Therapies on the basis of T-cell receptors rank among state-of-the-art biotechnological approaches in the combat against cancer and autoimmune diseases.

Both Avidex' technology and products have been developed by excellent scientists who will now reinforce MediGene's team. Avidex was formed in 1999 as a spin-off of Oxford University, and employs 42 people. The company will be operated at its site in Abingdon/Oxford as a wholly owned subsidiary of MediGene AG. Under the term of the acquisition, all Avidex employees will remain in employment. Avidex' CEO, James Noble, left

Avidex and is to join MediGene's Supervisory Board. Through the acquisition of Avidex, MediGene gains first-class know-how, reinforcing particularly the company's research department. Thus MediGene consistently invests in its future.

DRUG PIPELINE

MediGene relies on a well-balanced portfolio, allowing for possible failure risks, and leaving sufficient space for innovation at the same time.

Broad pipeline for long-term success

MediGene is characterized by highly diversified product development based on different technologies. The acquisition of Avidex has further extended and diversified MediGene's pipeline, making MediGene less dependent on the success of a single product or technology. This is very forward-looking, since drug development is very risky, and not every product makes it to the market. However, the probability of a product reaching the market increases with progressing development. For instance the average chance of success is 10–30% for a drug in phase I of clinical development, 30–60% in clinical phase II, and 60–80% in clinical phase III. After submission of the marketing authorization application to the regulatory authorities, the probability that the respective drug is approved and can be launched on the market is on average 90%.

There are a variety of reasons for discontinuing the development of a drug. They do not always involve insufficient efficacy or severe adverse events. Drugs often fail in development because their production is too difficult or too expensive. This applies in particular to current biotechnological products. Moreover, their development is often associated with great regulatory obstacles, and therefore development is protracted and costly. Other economic reasons also play an important role. A drug requires extensive patent protection in order to be commercialized. And a project needs sufficient financing for a promising future, by means of partnerships, if necessary.

Growth through a powerful portfolio

For this reason, MediGene relies on a well-balanced portfolio, allowing for possible failure risks, and leaving sufficient space for innovation at the same time. The Avidex products fulfill these criteria: RhuDex® is a late-stage drug candidate with a novel mode of action based on well-known facts. Validation of its efficacy would open up a market with billion euro potential. With its mTCR technology, MediGene operates in the high-tech sector of biotechnology, doing top-class research that has already taken the first steps towards product development. The level of innovation of mTCRs is extremely high, and the future potential of this technology corresponds to it.

RHUDEX®

RhuDex® is a late-stage drug candidate with a novel mode of action based on well-known facts. Validation of its efficacy would open up a market with billion euro potential.

Through the acquisition of Avidex, MediGene has achieved a solid proportion of the enterprise, and compiled a powerful portfolio. This basis will allow our company to grow further.

MEDIGENE'S ACQUISITIONS

2001	NeuroVir Therapeutics, Inc. Oncolytic HSV
2004	Munich Biotech AG EndoTAG™
2006	Avidex Ltd. RhuDex®, mTCRs

Bent Jakobsen, PhD, founder and Senior Vice President Research at Avidex

Dr Ulrich Moebius, Vice President Preclinical Research & Development at MediGene

? Avidex used to be an independent company and has now become part of a bigger international corporation. What does this mean for your work?

Jakobsen: MediGene and Avidex complement one another almost perfectly. Avidex is very strong in research, intensifying MediGene's activities in this field. In return, Avidex now gains access to the subsequent development areas. MediGene possesses excellent expertise in preclinical and clinical development. It is highly advantageous being able to take projects through an efficient organization that covers all stages in drug development.

? What does the cooperation between these areas look like?

Jakobsen: The research department should be linked closely to the development departments, and obtain feedback regarding the ongoing projects at regular intervals, in order to gear them to practicability from the very beginning. This also applies to the business development department. The research team should be informed about which projects make sense from a strategic point of view. Only then can research lay the foundations for marketable drugs. For this reason, Avidex' projects will benefit from the integration into MediGene. In return, the research department may provide a better understanding of already developed drugs. Precise analysis and explanation for a mode of action is becoming increasingly important.

? Your colleagues are now located in England, Germany, and the USA…

Jakobsen: …and internationality provides great advantages on the one hand, on the other hand it requires a lot of coordination and an open team spirit. From the very beginning we felt that Avidex and MediGene perfectly match in terms of culture. This was one of the main reasons why we decided to merge with MediGene.

? MediGene has secured new projects through the acquisition of Avidex. What does that mean for your corporate work?

Moebius: The mTCR technology is very exciting and has produced several drug candidates, one of which is already in preparation for clinical development. Currently, the most active interaction relates to the development of RhuDex®. This attractive product is already undergoing a clinical phase II trial. As is common practice in drug development, preclinical tests are conducted simultaneously in order to substantiate data, or to analyze specific product properties in more detail. This is the responsibility of my department, and we cooperate closely with our colleagues in Oxford who are responsible for the formulation and production of RhuDex®. The clinical development, regulatory affairs, and quality assurance departments in Munich are also involved in this project.

? How do you conduct a project like that across different departments and frontiers?

Moebius: We are supported by our project managers, who help to communicate in an efficient way within the company. In fixed task groups we determine the individual development steps, discuss the results, and prepare the decisions to be made. This results in clear-cut and efficient workflows.

? How do you rate the cooperation with your new colleagues in Oxford?

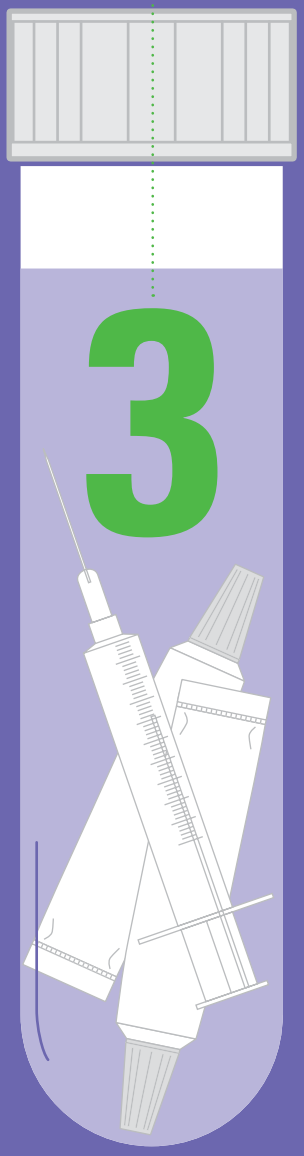
Moebius: It is very beneficial for MediGene! Our new colleagues are excellent scientists and really super people. We highly appreciate their very friendly, discrete, and cooperative character. They ask others for their opinions, they dispute, and always aim at bringing out the best of everything. We enjoy this very much, and it is very encouraging.

> *fig. 4*

Figure: drugs contain substances that fight diseases. They directly attack pathogens or diseased cells, or they activate the immune system against the disease.

3 Platform technologies

...posseses MediGene to develop future drug candidates, replenishing the company's pipeline. MediGene's technologies also provide a basis for the conclusion of partnerships.



7 × 3 = ∞

7 Products

…are included in MediGene's broad drug portfolio. 1 drug is already available on the market. 2 more drugs have been approved recently or are in the approval procedure. 4 drugs are in clinical development and several drug candidates are at the research and preclinical development stages.

A lot of opportunities

The majority of our products are based on modes of action that make an application of these products in different indications imaginable. The resulting multitude of development opportunities constitute the great potential of our drugs and technologies.

We shape variety.

Exploit potentials

The future is made up of opportunities. We are working on the development and realization of potentials. Our drug and technology portfolio provides several starting points. We have already started extending the development of EndoTAG™ to additional indications. The principle »one product for many applications« is both conclusive and efficient.

MediGene's products may be developed in many directions
Our development pipeline is very interesting for several reasons. On the one hand it comprises innovative active substances which may fill a gap in existing therapies. On the other hand they are based on very versatile technologies. Their modes of action target basic biological principles beyond a specific disease. Therefore our current products may become pilot projects for a series of drugs using the same mode of action for the treatment of different diseases. The advantages of this are obvious: development expenses for succeeding drugs are significantly lower, and the opportunities for closing partnerships increase. Consequently, the value of the respective products and technologies increases in line with their therapeutic and economic opportunities.

Technologies with development opportunities
With its three proprietary platform technologies MediGene is positioned on a broad basis. Each one of the technologies provides a number of development opportunities. The mTCR technology acquired in conjunction with Avidex targets T-cell receptors to activate or inhibit specific activities of the immune system. This may open up novel approaches in the treatment of numerous cancer and autoimmune diseases. For instance MediGene is exploring the mTCRs EsoDex™ and HiDex™ for the treatment of cancer and diabetes.

MediGene's HSV products on the other hand utilize viral mechanisms for tumor destruction. Their tolerability has already been proved in phase I trials. MediGene is now testing the products in additional trials against brain tumors and liver metastases. In 2006, MediGene reported positive interim results of a clinical phase I/II trial of the drug candidate NV1020. The data obtained document NV1020's tolerability and clearly indicate their efficacy in the treatment of liver metastases in patients suffering from colorectal carcinoma.

VARIETY
Our current products may become pilot projects for a series of drugs using the same mode of action for the treatment of different diseases.

Extension of the development of EndoTAG™
MediGene's EndoTAG™ technology has reached a particularly advanced development stage. Several phase I trials of the drug candidate EndoTAG™-1 for the treatment of different types of cancer have already been conducted. At present, a phase II

trial for the treatment of pancreatic cancer is in progress. At the end of 2006, MediGene published positive interim results obtained in this trial. In 2006, the so-called Orphan Drug Status has been granted for EndoTAG™-1 against pancreatic cancer. The Orphan Drug program of the European Union has been founded to support the development of therapies for rare and severe diseases. The orphan drug status ensures EU market exclusivity for the drug for a period of ten years following marketing authorization, as well as further benefits relating to the regulatory procedure.

THE ROAD TO CLINICAL DEVELOPMENT

Prior to testing a drug in humans, numerous examinations are necessary:

Research:
identification of therapeutic approaches and of the appropriate drug candidates

Process development:
development of the manufacturing process and the administration method

Preclinical development:
testing of efficacy and side effects in cell culture and animal model

In 2007, MediGene will extend clinical development and will initiate another phase II trial of EndoTAG™-1 in the indication triple receptor-negative breast cancer. Approximately 15% of breast cancer patients suffer from this highly aggressive type of breast cancer.

One of the reasons why MediGene chose these two indications was the high therapeutic need. We assume, however, that EndoTAG™-1 is basically suited for all solid types of cancer with a strong blood supply. For EndoTAG™ is targeted at cutting off the blood supply to cancer cells, thus »starving out« the tumor. If the ongoing trials of EndoTAG™-1 yield positive results, this will provide a very good perspective for the further development of this substance for other types of cancer.

However, the potential of EndoTAG™ exceeds the above applications, since the mode of action is also applicable to other diseases associated with abnormal formation of new blood vessels. MediGene has already developed some conclusive concepts regarding this topic, and achieved positive research results. In 2006, the company was granted federal and state research funding of almost 2 million € to support the research into EndoTAG™ in this field. The fact that MediGene obtains research grants affirms the versatility and value of our EndoTAG™ technology.

Oncology, immunology, dermatology – three complementing disease areas

MediGene's products target on three closely linked disease areas with high potential. The onset of cancer and autoimmune diseases is based on similar activities in the human body: functions of the immune system are blocked, bypassed, or misdirected. These disorders cause different diseases which could, however, be fought with similar modes of action. This is exactly what EndoTAG™ and mTCR are targeted at.

THE THREE CLINICAL DEVELOPMENT PHASES:

Phase I: examination of tolerability, small number of patients (5–50)

Phase II: dose-finding, testing for tolerability and first indication of efficacy, medium-sized number of patients (50–200)

Phase III: testing for tolerability and efficacy in a statistically significant group of patients (100– more than 1,000)

Skin diseases often originate from the immune system as well and therefore they can be treated by modulating the immune system, e.g. by Oracea™. MediGene's portfolio creates an intersection of oncology, immunology, and dermatology, utilizing the resulting synergy for the research on, development, and commercialization of drugs.

Prof. Dr Matthias Löhr, Acting Director, 2nd Medical Department, Heidelberg University

? You are conducting the clinical trial of EndoTAG™-1 against pancreatic cancer as an independent physician. What was the reason for this decision?

Löhr: EndoTAG™ represents a completely new and very interesting therapeutic approach. The concept of specifically delivering the drug to the tumor is fascinating. It reminds me of a precursor, Paul Ehrlich's »magic bullets,« i.e. antibiotics which are effective only in the center of the disease. EndoTAG™ copies this in oncology. This is a very smart concept!

? What do you expect from EndoTAG™-1 as a drug?

Löhr: EndoTAG™'s mode of action seems to be feasible. However it is not possible at this point in time to make any valid statements about the efficacy of EndoTAG™ in patients. From the data obtained in previous trials we conclude that this treatment should cause comparatively few adverse reactions. Up to now this has been confirmed.

? What impression do you have of MediGene as a partner in drug development?

Löhr: The cooperation with MediGene is very close, and I enjoy working with them a lot. I appreciate the distinct spirit of research at MediGene, and the fact that the company attaches very high priority to its clinical projects. MediGene has a truly competent team and very notable characters.

Dr Uwe Michaelis, Vice President of Research at MediGene

? How do you rate the EndoTAG™ technology from a researcher's point of view? Are there going to be more drug candidates?

Michaelis: This is our assumption. The EndoTAG™ technology offers a variety of applications which our research department is systematically analyzing. We have the great advantage that MediGene has already built up full development and manufacturing expertise with EndoTAG™-1. We will be able to benefit from this knowledge for each new EndoTAG™ drug candidate we are developing. Thus the period of time from the idea through clinical development to commercialization may be reduced enormously. We also intend to earn this benefit with our newly acquired mTCR technology.

? In 2006, MediGene received public funding of several million euros for two research projects. What characterizes MediGene's research work in particular?

Michaelis: We possess good projects, a lot of know-how, and we work fast. We proceed pragmatically when searching for new applications, always focusing on the quickest possible implementation for the patients. The support by public research grants, two newly closed major research partnerships, and numerous cooperation agreements with renowned universities and research institutions show that MediGene's research work even bears up to the severe judgment by outside experts. Achieving the necessary efficiency requires expertise, a great deal of teamwork, readiness to take on responsibility, and initiative. I think that this applies to each MediGene employee. We count on people whose approach to their work is unpretentious and goal-oriented, and who push forward our projects with great motivation, thus convincing and inspiring our partners.

> *fig. 5*

Figure: qualified and motivated employees are very important for a corporation's competitiveness. For this reason corporate and staff policy increasingly focus on the employees' motivation and know-how, as well as all measures and efforts made to maintain and encourage them.

We are growing. And so is our knowledge.

171 Employees

MediGene is an international biotech company. 171 employees work at three sites in Europe and in the USA.

1 Individual

Each MediGene employee possesses excellent professional skills, and a unique wealth of experience. MediGene counts on strong personalities with the ability to share and gather knowledge in cooperation with others.

171×1=1,000

1,000 Ideas

Our employees' innovation makes us ready for the future.

Use know-how

Knowledge evolves from networking. Networked knowledge multiplies knowledge. We combine the skills of our employees in order to work professionally, and to create innovation – on an interdisciplinary and international level. We support our employees' performance in order to excel ourselves.

MediGene's employees stand for expertise and high efficiency

At the end of financial year 2006, MediGene had 171 employees, a 50% increase compared with 2005. Through the acquisition of the UK-based company Avidex, MediGene gained more than 40 new employees.

About three quarters of our employees work in the research and development department. Physicians and biologists, pharmacists and chemists, engineers and technicians push the discovery of active substances and their development as a drug. Business economists, financial professionals, marketing specialists, and jurists work on the projects' entrepreneurial implementation. It is the teamwork between the departments that turns MediGene into a business.

MediGene has a well-balanced mix of talented young specialists, and professionals with many years of experience. They are excellently trained, and most of them gained professional experience in other companies before joining MediGene. More than two thirds of the employees are university graduates, over half of our staff hold a doctorate. In order to develop the professional and personal skills of the employees, MediGene supports their participation in specific advanced training, as well as renowned congresses and conferences.

MediGene is a lean company with short decision-making processes. It is our objective to provide our employees with sufficient room to maneuver. In return, each employee is expected to be proactive and to show a great sense of responsibility. Working on one's own initiative is a sign of creativity and innovation, but it also requires accuracy, efficiency, and cost effectiveness for the company. Everybody's work is judged by the achievement of set targets. All employees of MediGene AG have a stake in the company by participating in special stock option ownership programs. When selecting employees for MediGene, we attach importance to personal qualities – apart from professional skills – such as team spirit and openness. Communication skills and the ability to work in a team, as well as the willingness to become acquainted with new fields of work very quickly permit the integration of new employees and projects, as was the case after the acquisition of Avidex.

MediGene's identity and success will continue to be shaped by our employees in the future. MediGene counts on their productivity in order to realize the company's ambitious goals. During the current financial year, the number of employees is expected to rise to approximately 200, especially due to the establishment of a MediGene sales force. Our staff consists of excellent people. For future vacancies or newly created positions, we will continue to recruit top-quality people – worldwide.

Brian Cameron, PhD, originally from Scotland, Research Biochemistry, UK

Giovanna Bossi, PhD, originally from Italy, Cell Biology, UK

Nikolai Lissin, PhD, originally from Russia, Exploratory Fusion Design Biochemistry, UK

Notizen:

MediGene's international team

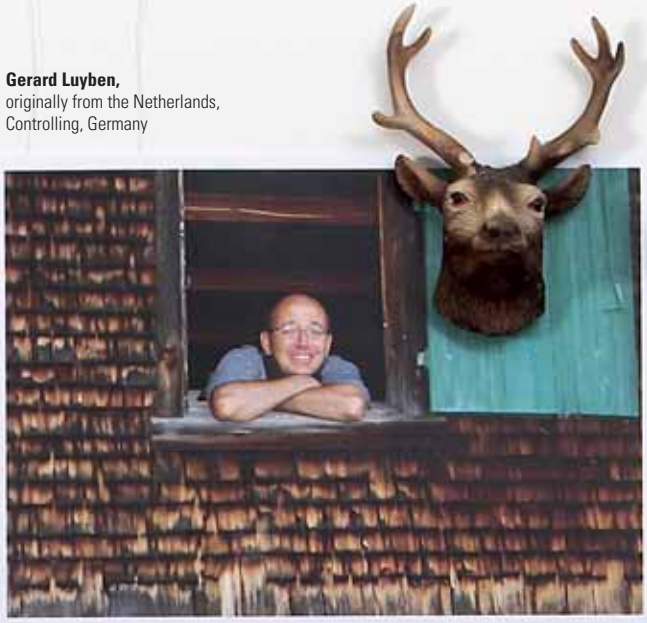
MediGene's employees come from 20 different nations. More than 10% of our colleagues come from countries outside of our sites in Germany, the UK, and the USA. This broadens our horizon, and it enriches our work.

Tawanda Muzorewa, originally from Simbabwe, Process Development, Germany

Dr Eric Guenzi, originally from France, Research, Germany

Eunice Braz, originally from Portugal, Clinical Development, Germany

Pam Larson from the USA, Regulatory Affairs, USA



Gerard Luyben,
originally from the Netherlands,
Controlling, Germany

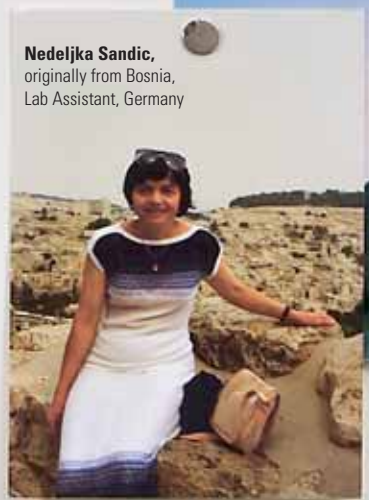
Dr Irene Gander-Meisterernst from Germany,
Regulatory Affairs, Germany

Rebecca Ashfield, D.Phil,
from England,
Project Management, UK

Dr Gabriela Kosuthova,
originally from Slovakia,
Process Development, Germany

Cristina Reiniger,
originally from Brasil,
Reception, Germany

Yasmin Fahimi,
originally from Iran,
Human Resources, Germany

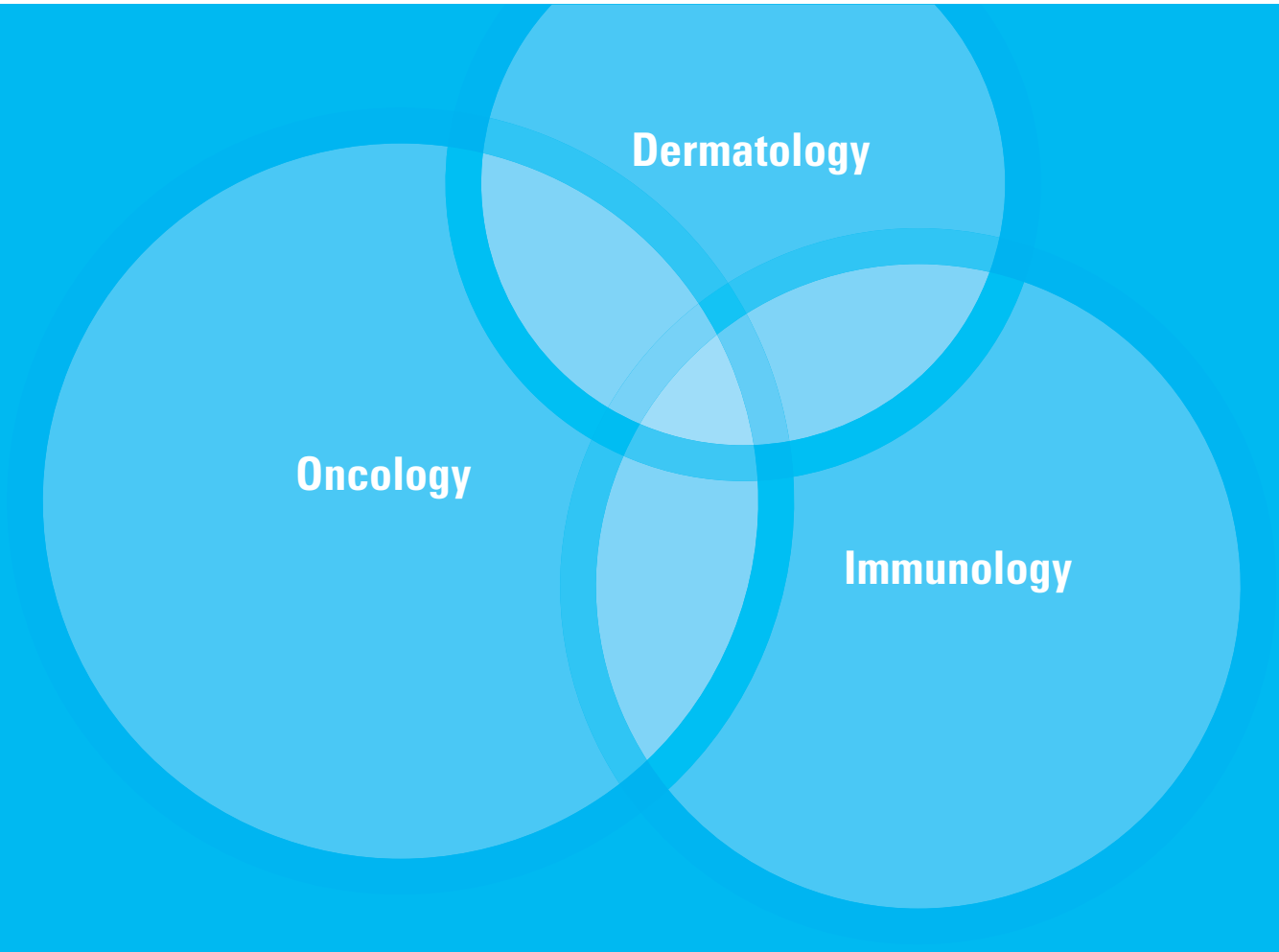


Nedeljka Sandic,
originally from Bosnia,
Lab Assistant, Germany

Kristina Korhonova,
originally from Czech Republic,
Business Development, Germany

MediGene is active in three disease areas

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



One drug on the market

Two more drugs approved/ under review

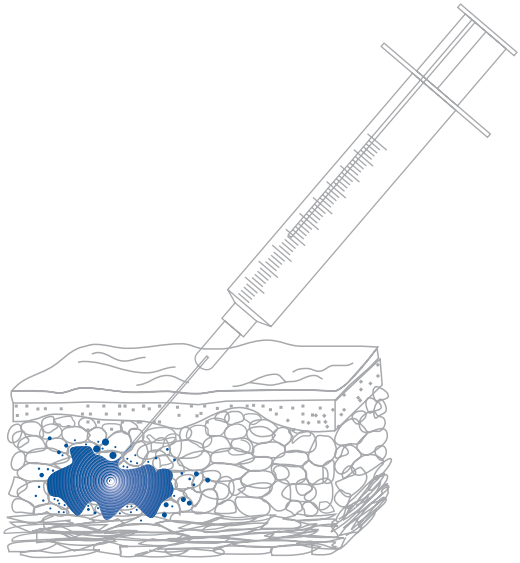
Broad pipeline based on three technology platforms

Eligard®

Specialty Pharma Segment

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

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



Hormone therapy with innovative drug delivery system

MediGene's first drug on the market, Eligard®, is a hormone compound for the treatment of advanced, hormone-dependent prostate cancer. The active substance (leuprolide acetate) significantly reduces the level of the male sex hormone testosterone, thus suppressing tumor growth. The established substance is combined with a drug delivery system, 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. So far the one-month and three-month products were been approved and launched in Europe. In 2006, the six-months product also obtained marketing authorization for Germany.

European market launch of Eligard® by MediGene's partner Astellas Pharma started in 2004. MediGene's revenues from Eligard® are made up of two elements: royalties on the sales of Eligard®, as well as milestone payments that MediGene receives from Astellas for the achievement of defined targets such as approval and market launch in specific European countries. MediGene, on the other hand, makes license fee payments for Eligard® to QLT (previously Atrix Laboratories). MediGene acquired the pan-European marketing rights for Eligard® from Atrix and successfully took the product through the German approval procedures. In 2006, Astellas successfully finalized European market launch of the one-month and three-months products.

Outlook

Eligard® will remain one of MediGene's mainstay of sales in the coming years. The market launch of the six-months product in March 2007 is expected to lead to another rise in market share.

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

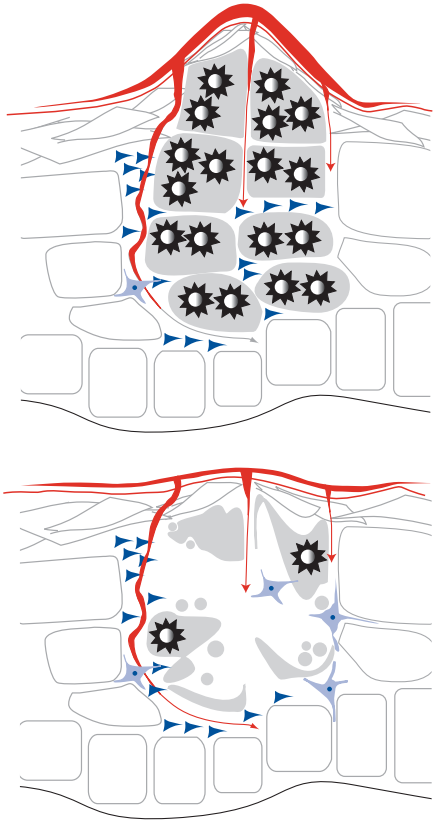
Eligard® is a trademark of QLT USA, Inc.

Polyphenon® E Ointment

Specialty Pharma Segment

Indication	Preclinic/ Research	Clinical phase I	Clinical phase II	Clinical phase III	Approval	Marketed	Peak sales potential[1] (in million €)
Genital warts							>150
Actinic keratosis							>200

Changes in a skin tumor induced by Polyphenon® E Ointment



- HPV infection of skin cells induces formation of warts
- Polyphenon® E 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

Immune modulation using catechines

The Polyphenon® E Ointment is MediGene's second drug that has obtained marketing authorization. In October 2006, the US regulatory authority FDA approved the Polyphenon® E Ointment for the US market. This makes MediGene the first German biotech company that has obtained US approval for a drug. MediGene's marketing partner Bradley Pharmaceuticals will launch the product in the USA in 2007.

Polyphenon® E Ointment contains a concentrate of catechines with a defined composition. These natural substances are extracted from green tea leaves in a specific procedure. During clinical development, Polyphenon® E Ointment tested in the treatment of genital warts showed high and sustained efficacy with very few adverse events. The results come from an international phase III development program, during which more than 1,000 patients in 15 countries were medicated with Polyphenon® E Ointment.

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.

MediGene's findings indicate that Polyphenon® E Ointment activates the body's defenses (immune modulation). Moreover, MediGene was able to prove that Polyphenon® E Ointment inhibits major functions of the papilloma virus and counteracts specific changes in tumor cells. This may open up new therapeutic approaches for other skin diseases.

Outlook

MediGene expects US market launch of the Polyphenon® E Ointment during the second half of 2007. Marketing authorization applications in several other European countries are to be submitted in 2007.

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

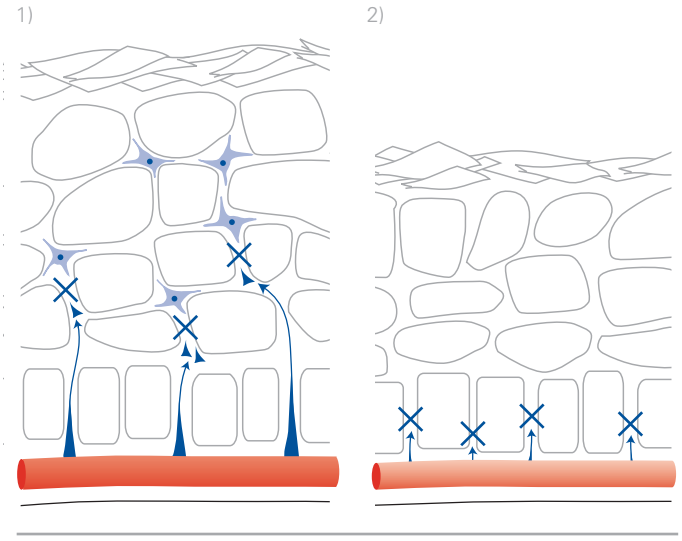
Polyphenon® E is a trademark of Mitsui Norin

Oracea™

Specialty Pharma Segment

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

Changes in inflammatory processes of the skin by Oracea™



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

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

The first oral long-term therapy for rosacea

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

Oracea™ targets a very widespread skin disease, i.e. rosacea, a chronic inflammation of the facial skin, especially in the center part of the face. In Europe, about 15 million people are affected by this disease.

Inflammatory rosacea is commonly treated with antibiotics. However, the therapeutics currently available show side effects and are not suited for long-term therapy. Medication has to be discontinued after a maximum period of eight weeks, and in most cases the disease recurs afterwards. Oracea™ capsules also contain an antibiotic. In contrast to other antibiotics, however, this substance is released steadily and at a low dosage over a long period of time. That way it can unfold its anti-inflammatory effect without destroying the body's normal bacteria. This prevents numerous problems: the characteristic side effects of antibiotics did not occur with Oracea™, and there was no development of resistant bacterial strains. For this reason, Oracea™ offers the alternative of oral long-term therapy for rosacea, which has not been available to patients in Europe up to now.

Outlook

In the first half of 2007, MediGene expects the first approval of Oracea™ in a European country. To begin with, the company is planning to sell Oracea™ in Germany and the UK. Market launch in Germany is expected in the second half of 2007. For other European countries MediGene is planning to enter into marketing partnerships.

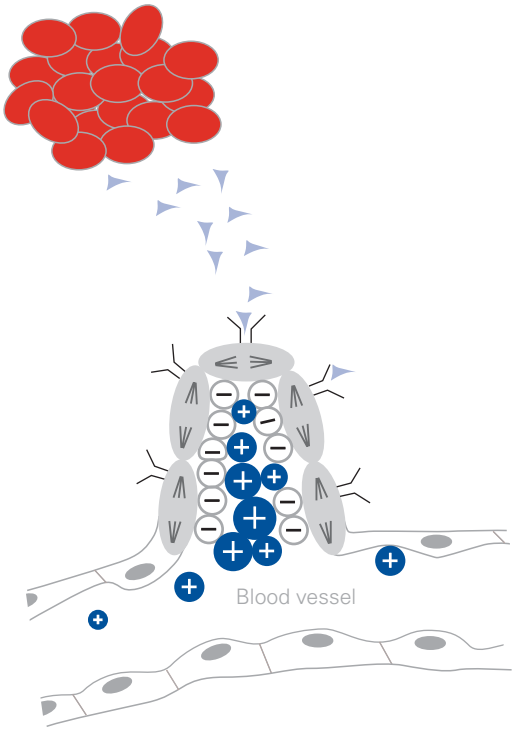
[1] Per year. MediGene will receive royalties from sales of product.

EndoTAG™-1

Biopharma Segment

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

EndoTAG™ attacking endothelial tumor cells



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

Starving out cancer cells

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

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

With its novel mode of action EndoTAG™ adds an innovative variant to the successful anti-angiogenesis approach (inhibition of vascularization). Moreover, EndoTAG™ offers a novel alternative to conventional chemotherapy. MediGene expects that direct destruction of the endothelial cells does not lead to any resistance to the therapeutic substance applied. This would solve a common problem inherent to existing therapies. In addition, the EndoTAG™ concept is expected to provide a wide range of applications, and could even be suited for the treatment of all types of solid tumors with their own vascularization. EndoTAG™-1 is MediGene's first product candidate derived from the EndoTAG™ platform technology. Several phase I trials of this drug candidate in different indications have already been completed. Preclinical studies clearly indicate that the combination of EndoTAG™-1 and chemotherapeutic drugs will have a synergistic effect. MediGene is currently investigating this in a clinical phase II program in the indication pancreatic cancer: in a trial initiated in 2005, EndoTAG™-1 is combined with the drug Gemcitabine®. MediGene published positive intermediate results from this trial at the end of 2006.

Outlook

MediGene will extend the EndoTAG™-1 development program and initiate another phase II trial investigating EndoTAG™-1 in the treatment of hormone-resistant breast cancer. Final results from the ongoing trial in the indication pancreatic cancer are expected in the first half of 2008.

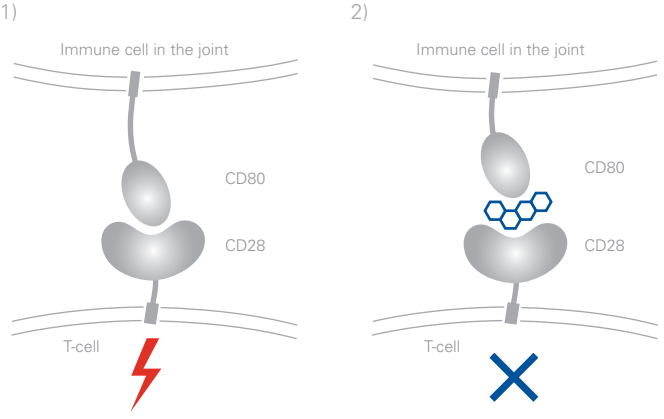
[1] Per year. MediGene will receive royalties from sales of product.

RhuDex®

Biopharma Segment

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

RhuDex® acting as an anti-inflammatory agent



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

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

Orally available therapy for rheumatoid arthritis

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

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. This activation is triggered by interaction between specific proteins on immune cell surfaces. The so-called 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® blocks an important signaling pathway by binding to CD80, thus preventing interaction with CD28. The inflammatory process should be blocked, and the disease should subside.

The fact that there is another drug using this approach that is already applied very successfully in the treatment of this disease proves that CD80 is a well-suited target indeed. In contrast to RhuDex®, this drug is administered by protracted infusions, whereas RhuDex® is administered orally. Since RhuDex® is the first orally available drug of this type, it is very well positioned to compete in this billion euro market.

Outlook

Since January 2007, RhuDex® has been undergoing a phase IIa pilot trial in patients. The results are expected for the second half of 2007. Based on these data, MediGene will schedule another large-scale phase II trial of RhuDex®.

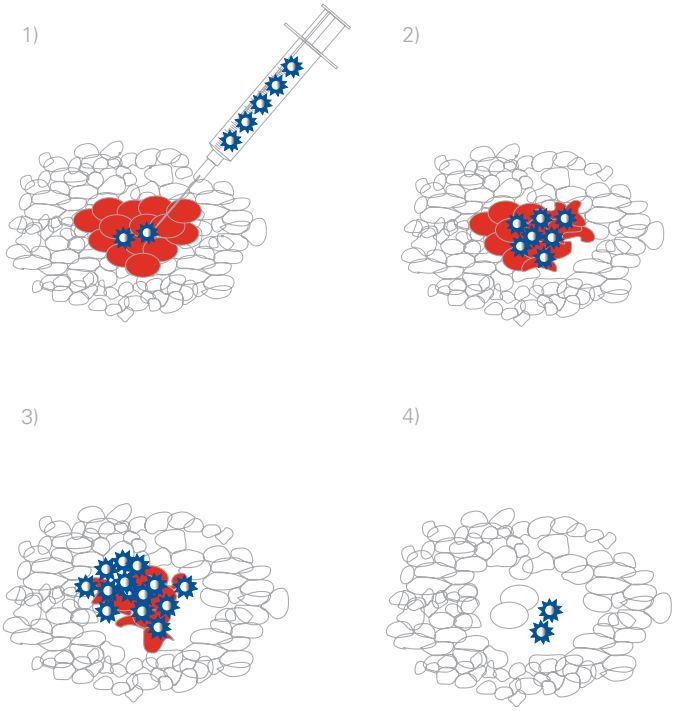
[1] Per year. MediGene will receive royalties from sales of product.

Oncolytic herpes simplex viruses (HSVs)

Biopharma Segment

	Indication	Preclinic/ Research	Clinical phase I	Clinical phase II	Clinical phase III	Approval	Marketed	Peak sales potential[1] (in million €)
NV1020	**Colon liver metastates**							>300
G207	**Glioblastoma**							>200

Oncolysis by means of HSV



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

Cancer-killing viruses

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

This hypothesis is backed by comprehensive laboratory experiments. If it turns out to be effective in tumor patients, oncolytic HSVs will act more selectively and efficiently than conventional cancer therapies do, yet without producing severe adverse events. They could also provide a therapeutic alternative for the treatment of tumors that are inoperable or have developed a resistance to chemotherapy or radiotherapy. Possible synergistic effects in combining oncolytic HSV and standard therapies are also investigated.

Preliminary clinical phase I trials with cancer patients have already yielded encouraging results: since 2004, MediGene has investigated the virus NV1020 in a continuative phase I/II trial in the indication liver metastases developing from colorectal carcinoma. In this trial, NV1020 is combined with standard chemotherapy. MediGene published positive interim results from this trial in September 2006. In 2005, a phase I trial of another HSV was initiated, i.e. G207 for the treatment of malignant brain tumors. This trial is conducted in cooperation between the University of Alabama, Birmingham, and MediGene, and is substantially supported by a SPORE grant (Specialized Program of Research Excellence) awarded by the National Cancer Institute. NV1020 and G207 are derived from MediGene's HSV technology platform.

Outlook

MediGene is planning to continue both HSV trials in 2007.

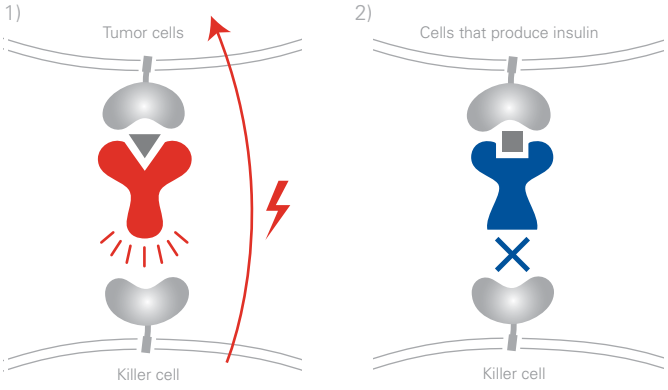
[1] Per year. MediGene will receive royalties from sales of product.

Soluble T-cell receptors (mTCR)

Biopharma Segment

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

mTCRs recognize antigens



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

1) EsoDex™ stimulates ϟ killing of tumor cells
2) HiDex™ prevents ✕ destruction of cells that produce insulin

A new generation of antigen-specific substances

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

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

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

One example from cancer therapy: the mTCR drug candidate EsoDex™ is such an adapter which recognizes cancerous cells and shows the killer cells of the immune system the way. These killer cells are able to attack and destroy tumor cells.

In some diseases, however, certain cells should be protected instead of attacked. This is effectuated, for instance, by the mTCR HiDex™ which is developed for the treatment of insulin-dependent diabetes. This adapter recognizes the few remaining insulin-producing cells in a patient. Instead of activating killer cells, HiDex™ protects these precious cells. That way a basic insulin supply should be maintained.

MediGene's T-cell receptors are groundbreaking due to two properties: the multitude of novel approaches to recognize specific cells such as cancerous cells on the one hand, and the manifold modes of action they are able to mediate on the other hand.

MTCRs have been developed by Avidex in Abingdon/Oxford. With the acquisition of Avidex, MediGene acquired all rights to this technology. At the end of 2006, MediGene entered into a research cooperation with Sanofi-Pasteur. MediGene is developing the technology for therapeutic applications, whereas the vaccine manufacturer Sanofi-Pasteur intends to apply the potential of mTCRs for vaccine validation.

Outlook

Several product candidates based on the mTCR technology, such as EsoDex™ and HiDex™, are currently in the research stage. MediGene expects to start preclinical development of some of those drug candidates within the next few years.

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

Share

Development of share price

The MediGene share started into 2006 at a price of 8.35 €. Following a peak level of 9.23 € at the end of February, the first half of the year was marked by a persistent downward trend. In mid-August, the share reached its lowest level of the year at 5.32 €. Contributing significantly to this drop in price was the announcement by the US regulatory authority that it would extend the time period for assessing the New Drug Application for Polyphenon® E Ointment. A series of positive company news allowed the share to recover in the second half of the year. This upward movement peaked at a price of 8.36 € at the end of October, reflecting the market's reaction to the approval of Polyphenon® E Ointment. Despite the positive news published in December, the year-end closing price of the MediGene share was 6.97 €, which is equivalent to a loss of 16.5% (TecDAX: +25%).

Unfortunately, the good company news was not met by an increase in share price. In the view of the company's management, the main reason for the disappointing price development is the prolonged period of uncertainty regarding the chances for approval of Polyphenon® E Ointment and the associated profit warning from the company. This resulted in sharp price losses which were only partly compensated by the exceedingly positive event of market authorization being granted. The shift of the break-even point which arose from the acquisition of Avidex was also viewed very critically by some of the investors. However, the Executive Board of MediGene AG is confident that this measure to strengthen the company's innovative power, as well as the upcoming investments for establishing its own sales organization, are the appropriate strategic steps through which MediGene will achieve sustained success.

Share data

Stock ID code	MDG
Securities identification number	502 090
ISIN – International Securities Identification Code	DE000 5020903
Common Code	1107 3026
CUSIP	993 906 FV5
Reuters symbol	MDGGn
Bloomberg symbol	MDG
Market segment	Prime Standard
Indices	Prime All Share, Prime IG Biotechnology
Trading floors	XETRA, Berlin, Bremen, Düsseldorf, Frankfurt, Hamburg, Hannover, Munich, Stuttgart
Designated Sponsors	Concord Effecten AG, WestLB AG
No. of shares outstanding as at Dec. 31	28,653,630

Broad coverage by analysts

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

In 2006, the following investment banks reported on MediGene

Concord Effecten AG	Dr Roger Becker/ Rüdiger Holzammer
Crédit Agricole Cheuvreux	Stefan Mühlbauer
DZ Bank	Dr Patrick Fuchs
Equinet Institutional Services	Dr Martin Possienke
Goldman Sachs International	Dr Stephen McGarry/ Linden Townson
Landesbank Baden-Württemberg	Dr Hanns Frohnmeyer
Morgan Stanley Dean Witter	Dr Daniel Mahony/ Dr Karl D Bradshaw
Nomura Code Securities	Dr Samir Devani
Oppenheim Research GmbH	Dr Christian Peter
SES Research GmbH	Henner Rüschmeier
Viscardi Securities GmbH	Robert Willis/ Isabell Friedrichs Dr Liming Ge
Vontobel Securities AG	Dr Markus Metzger
WestLB AG	Andreas Theisen/ Oliver Kaemmerer/ Daniel Wendorff

In 2006, MediGene and presented the company at the following investor conferences

BIO CEO & Investor Conference	New York
Eigenkapitalforum	Berlin
Science4Life	Frankfurt
Rodman & Renshaw Conference	Monte Carlo
BioEquity Europe	Frankfurt
Needham Conference	New York
European Healthcare Investors Conference	Frankfurt
Bio-Tech-CEO-Conference	Zurich
BIO Investor Forum	San Francisco
Rodman & Renshaw Techvest 6th Annual Healthcare Conference	New York

Intense investor relations activities

In 2006 we continued our extensive activities by keeping investors, financial analysts and the business press informed about MediGene's development. In addition to our press and analyst conferences, we had numerous interviews with investors and journalists at home and abroad, and presented the company at the following renowned investors conferences:

Annual report receives award

In 2006, MediGene's 2005 annual report received a distinction at the renowned LACP Annual Report Competition in the US. In this major international competition of annual reports, MediGene won the »Gold Award« in the biotechnology category (companies with more than 100 million US$ in annual sales). This award is the latest of a host of honors MediGene has received for its reporting to shareholders and the public.

Capital increases

On March 8, 2006, MediGene successfully closed a capital increase, raising its liquid funds by 15,651,597 €. A total of 1,852,260 new shares issued at a price of 8.45 € was placed with institutional investors in Europe and in the USA. The funds are intended for the extension of the company's product portfolio, and to realize new licensing opportunities. In December 2006, MediGene announced the acquisition of a license for the drug Oracea™. On September 27, 2006, MediGene issued a total of 8,157,787 new MediGene shares in exchange for all Avidex shares outstanding. The total year-end number of MediGene shares outstanding was 28,653,630.

At the beginning of the financial year 2007, MediGene issued 2,062,040 new shares to European institutional investors against a gross cash contribution of 12.6 million €. The issue was significantly oversubscribed. Altogether the number of newly issued MediGene shares increased to 30,843,183 by February 28, 2007.

Development of shareholder structure (as at December 31, 2006)

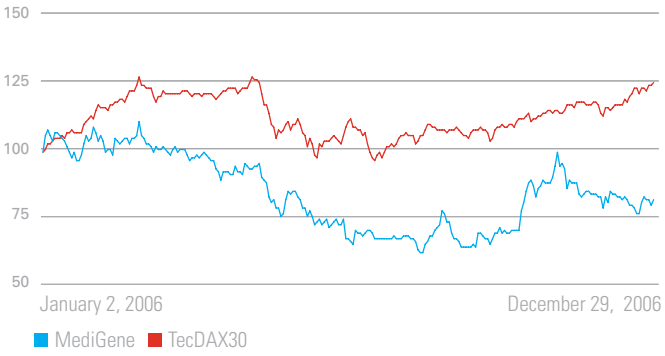
The portion of shares held by institutional investors significantly increased to 37% in 2006 (2005: 34%). The portion of private investors decreased accordingly, from 61% to 60%. Directors' holdings decreased to almost 3% (2005: 5%). This decrease is a conseqence of the increased number of MediGene shares resulting from the capital increases.

Shareholder structure (as at February 28, 2007)

A substantial proportion of the institutional MediGene shareholders emerging from the acquisition of Avidex Ltd. is represented by Mr. Rainer Kreifels. On January 16, 2007, Mr. Kreifels reported a proportion of voting rights of 2,778,959 shares (approximately 9% of the MediGene shares outstanding) to the company.

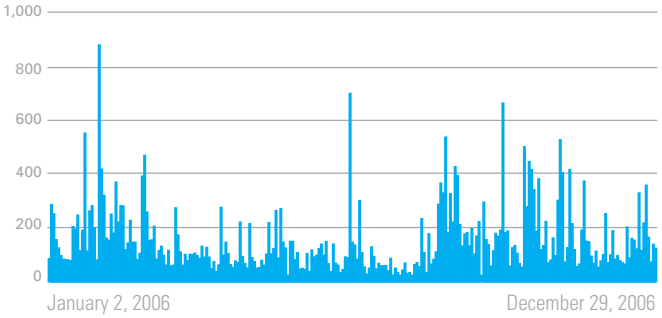
Share price 2006

(January 2, 2006 € 8.35 indexed to 100)



Volume

In thousands

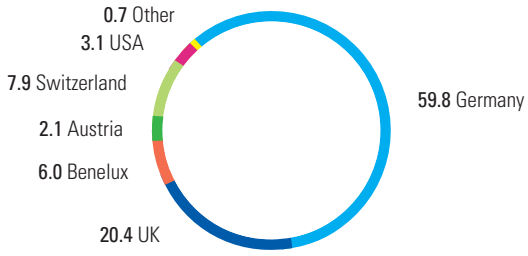


Key figures per share

In €	2006	2005
52 weeks high	9.23	11.66
52 low high	5.32	6.85
Opening price	8.35	8.70
Year end/closing price	6.97	8.36
Mean share price	7.15	9.20
Weighted average number of shares outstanding	22,410,901	18,560,027
Average trading volume in shares	164,001	138,787
Average market capitalization in million €	160	171
Total numbers of shares outstanding as at Dec. 31	28,653,630	18,766,172
Dividend per share	0.00	0.00
Cashflow per share from operating activities	-0.31	-0.64
Equity per share	4.89	2.79

Shareholder structure by country[1)]

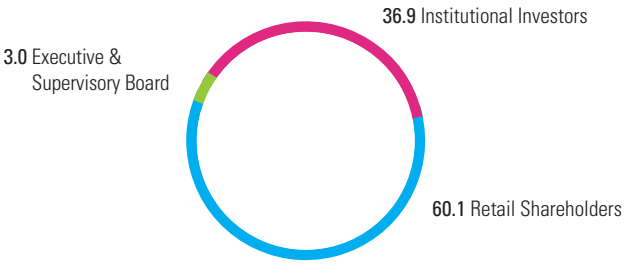
In %



[1)] as per December 31, 2006

Shareholder structure by investortype[1)]

In %



[1)] as per December 31, 2006

Corporate Governance

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

Corporate Governance principles provide regulations for the following areas:

- **they describe the major rights of the shareholders,**
- **they define clear management principles and the respective responsibilities for the individual company bodies,**
- **they regulate the interaction between these bodies,**
- **they demand straightforward and transparent communication with the public, and**
- **they require conscientious, reliable accounting and auditing.**

Corporate Governance Code and Compliance Declaration

MediGene's Corporate Governance Code is accessible on our website at www.medigene.de/englisch/corporate_governance). This also applies to the official Compliance Declaration of MediGene's Executive and Supervisory Boards. With regard to a few individual items MediGene has, after thorough deliberation, decided not to comply with the code. These items are specified in the declaration. The reasons for non-compliance are stated in the report (see p. 40). The implementation of Corporate Governance at MediGene means amongst others:

Relations with the company's shareholders

MediGene AG respects the rights of 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 free 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 one's need for information.

Communication with the public

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

Executive Board

The Executive Board as a whole as well as each individual board member will conduct the enterprise`s business with the due care and diligence of a precise and conscientious executive officer in

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

Supervisory Board

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

Cooperation between the Executive Board and the Supervisory Board

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

Remuneration of Executive and Supervisory Board members

Remuneration of Executive and Supervisory Board members is reported on pages 54 and 103 f. of the annual report, and is accessible at the company's web site www.medigene.com. The information is individualized and itemized. The Executive Board members' remuneration comprises fixed and variable components, as well as performance incentives to increase the value of the company in the long term. The criteria for the variable compensation components are laid down in advance each year. The long-term compensation components consist of stock options. The intention of this is to create performance incentives geared towards lasting corporate success. The targets that form the basis of these incentives may not be changed subsequently.

The Supervisory Board members' total compensation comprises a fixed cash amount, and meeting attendance fees. Both chairmanship and deputy chairmanship of the Supervisory Board are taken into account in the evaluation of the Supervisory Board members' scope of activities.

Reporting and audit of annual financial statements

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

Stock option plan and similar securities-based incentive systems

Stock option plan 2003

The stock option plan of 2003 provided for the issuance of option rights to the company's Executive Board and employees. The exercise price to be paid for the subscription to a MediGene share upon exercise of the option right amounts to 120% of the basic value. This basic value corresponds either to the average closing price of the MediGene share of the past sixty trading days prior to the date of issuance of the respective options, or to the opening price of the MediGene share on the allotment date, whichever value is higher. The holders of 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 stock option plan 2003, please see page 91 f. of the annual report.

Stock option plan 2006

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 (stock option plan 2006). Up to now, no stock options from this plan have been issued. The exercise price to be paid for the subscription to a MediGene share when the option right is exercised equals the unweighted average of the closing prices of the share in the company on the 30 trading days prior to the allotment date of the respective option right. As a prerequisite for the exercise of an option right, the unweighted average of the closing prices of the company's shares on the 30 trading days prior to the first day of the respective exercise period in which the option is exercised has to equal at least 120% of the exercise price. If this precondition has been met with respect to a specific exercise period, the option rights can be exercised during this exercise period irrespective of the further development of the price of the company's shares (performance target). 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.

Earlier employees' stock ownership programs

In addition to the 2003 stock option plan, 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 employees' stock ownership program, please see page 91 f. of the annual report.

Directors' Dealings

Under section 15a of the Securities Trading Act (Wertpapierhandelsgesetz), the Executive and Supervisory Board members of MediGene AG, as well as persons who have a close relationship with such members (family members), are obligated to report 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) have to be reported. The company has to be notified about such transactions within five working days and has to publish them immediately. This obligation is inapplicable if the total value of these tradings does not exceed € 5,000 during one calendar year.

The following securities transactions that are subject to notification were carried out in 2006:

Director's Dealings in 2006

Name of Board Member	Function	Classification of the share	ISIN	Transaction	Place of transaction	Date of transaction	Price per share in €	Number of shares	Deal volume in €
Dr Manfred Scholz	Supervisory Board Member	Share	DE00 0502 0903	Purchase	XETRA	Feb. 27, 2006	8.76	1,507	13,242.00
Dr Manfred Scholz	Supervisory Board Member	Share	DE00 0502 0903	Purchase	XETRA	Mar. 08, 2006	8.38	501	4,240.03
Dr Manfred Scholz	Supervisory Board Member	Share	DE00 0502 0903	Purchase	XETRA	Mar. 08, 2006	8.50	1,000	8,526.55
Dr Manfred Scholz	Supervisory Board Member	Share	DE00 0502 0903	Purchase	XETRA	Mar. 08, 2006	8.61	1,000	8,636.88
Dr Manfred Scholz	Supervisory Board Member	Share	DE00 0502 0903	Purchase	XETRA	Mar. 09, 2006	8.44	630	5,359.30
Dr Manfred Scholz	Supervisory Board Member	Share	DE00 0502 0903	Purchase	XETRA	Mar. 09, 2006	8.40	1,183	9,884.50
Dr Manfred Scholz	Supervisory Board Member	Share	DE00 0502 0903	Purchase	XETRA	Mar. 09, 2006	8.45	3,179	26,936.90
Dr Manfred Scholz	Supervisory Board Member	Share	DE00 0502 0903	Purchase	XETRA	Mar. 09, 2006	8.50	4,500	38,367.49
Prof. Dr Ernst-Ludwig Winnacker	Chairman of the Supervisory Board	Share	DE00 0502 0903	Sale	XETRA	Mar. 30, 2006	8.18	11,404	93,265.33
Dr Ulrich Delvos	Executive Board Member	Share	DE00 0502 0903	Purchase	XETRA	June 30, 2006	5.75	1,000	5,788.69
Susanne Heinrich	Associated Person (§ 15 a III WpHG)	Share	DE00 0502 0903	Purchase	XETRA	July 03, 2006	5.75	2,000	11,497.00
Dr Manfred Scholz	Supervisory Board Member	Share	DE00 0502 0903	Sale	XETRA	Nov. 23, 2006	7.14	4,350	30,963.32
Dr Manfred Scholz	Supervisory Board Member	Share	DE00 0502 0903	Sale	XETRA	Nov. 23, 2006	7.13	2,150	15,282.27
Dr Manfred Scholz	Supervisory Board Member	Share	DE00 0502 0903	Sale	XETRA	Nov. 23, 2006	7.11	3,500	24,781.87
Dr Manfred Scholz	Supervisory Board Member	Share	DE00 0502 0903	Sale	XETRA	Nov. 27, 2006	7.10	3,595	25,445.65
Dr Manfred Scholz	Supervisory Board Member	Share	DE00 0502 0903	Sale	XETRA	Nov. 30, 2006	7.10	405	2,865.77
Dr Manfred Scholz	Supervisory Board Member	Share	DE00 0502 0903	Sale	XETRA	Dec. 01, 2006	7.16	663	4,747.08
Dr Manfred Scholz	Supervisory Board Member	Share	DE00 0502 0903	Sale	XETRA	Dec. 01, 2006	7.11	2,500	17,731.12
Dr Manfred Scholz	Supervisory Board Member	Share	DE00 0502 0903	Sale	XETRA	Dec. 01, 2006	7.22	500	3,606.22
Dr Manfred Scholz	Supervisory Board Member	Share	DE00 0502 0903	Sale	XETRA	Dec. 01, 2006	7.18	576	4,114.58
Dr Manfred Scholz	Supervisory Board Member	Share	DE00 0502 0903	Sale	XETRA	Dec. 01, 2006	7.20	100	719.25
Dr Manfred Scholz	Supervisory Board Member	Share	DE00 0502 0903	Sale	XETRA	Dec. 01, 2006	7.17	4,761	34,063.91
Dr Manfred Scholz	Supervisory Board Member	Share	DE00 0502 0903	Sale	XETRA	Dec. 01, 2006	7.23	4,400	31,765.66
Dr Manfred Scholz	Supervisory Board Member	Share	DE00 0502 0903	Sale	XETRA	Dec. 04, 2006	7.11	1,400	9,939.61
Dr Manfred Scholz	Supervisory Board Member	Share	DE00 0502 0903	Sale	XETRA	Dec. 04, 2006	7.12	212	1,488.34
Dr Manfred Scholz	Supervisory Board Member	Share	DE00 0502 0903	Sale	XETRA	Dec. 04, 2006	7.10	888	6,285.64

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

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

Deductible in the case of D&O insurances

With regard to the D&O insurance effected for the Executive and Supervisory Board members of MediGene AG, no deductible has been agreed. Both the Executive and Supervisory Boards believe that the sense of responsibility applied in fulfillment of their duties is fully guaranteed without any such deductible.

Age limits for Executive and Supervisory Board members

No age limit exists for the Executive and Supervisory Board members of MediGene AG. Both the Executive and Supervisory Boards consider such age limits to be an inappropriate constraint of the shareholders' right to elect the Supervisory Board members, and a restriction of the Supervisory Board with regard to the choice of qualified Executive Board members.

Consideration of committee work in the compensation of Supervisory Board members

The membership in Supervisory Board committees is not taken into consideration for the remuneration of Supervisory Board members of MediGene AG. Both the Executive and Supervisory Boards believe that the Supervisory Board members show a high degree of commitment in their committee work without any such regulation.

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

No such caps have been agreed 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 for the corporation, since it is impossible to predict in which cases the criteria of an extraordinary, unforeseen development would be fulfilled.

Performance-related remuneration of the Supervisory Board members

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

Publications on the web site of MediGene AG

Unless required by law, MediGene AG does not disclose any details about capital increases on its web site before the end of the subscription period. In this way the company intends to minimize any legal risks involved in the international accessibility of the web site.

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

Financial statements

Report of the Executive Management Board

The preparation of these Consolidated Financial Statements and the information contained in the Management's Discussion & Analysis (MD&A) are the responsibility of the Executive Board of MediGene AG. The consolidated accounts are drawn up on the basis of the International Financial Reporting Standards (IFRS), as applicable throughout the EU, and the additional requirements of German commercial law pursuant to Sec. 315 a (1) HGB. The Executive Board of the company believes that these Consolidated Financial Statements reflect all of the adjustments that are necessary for the portrayal of the assets, financial and income position at the end of the periods ending in December 2005 and 2006. These Consolidated Financial Statements certain estimates and assumptions by the Executive Board that influence the figures specified in the Financial Statements. These estimates and assumptions were made with the utmost care and are based on all of the knowledge that was available at the time. The Consolidated Financial Statements and the MD&A were supplemented with information that is required by the German Commercial Code (HGB).

With the help of an effective internal risk management system, the deployment of reliable software and standardized operating systems, we ensure that all activities within the company are performed in compliance with existing authorizations and that all business transactions are documented and processed with maximum care and attention. This integrated system is supplemented by written guidelines and work instructions, an appropriate selection and training of qualified employees. The result of all this is a secure basis that guarantees that the course of business is represented in a way that corresponds to the actual situation.

In accordance with the decision of the Shareholders' Meeting, Ernst & Young, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich, an independent auditing company, has audited the Consolidated Financial Statements – in compliance with US-GAAP – and the group MD&A. The Supervisory Board discussed the Consolidated Financial Statements, the group MD&A and the audit report thoroughly in the presence of the auditor. The results of this audit can be found in the Supervisory Board Report (see p. 108 f. of this Annual report).

Martinsried, March 2007

MediGene AG
The Executive Management Board

Dr Peter Heinrich
Chief Executive Officer

Dr Ulrich Delvos
Chief Officer research & development

Alexander Dexne
Chief Financial Officer

Auditors' Report

We have audited the consolidated financial statements prepared by the of MediGene AG, Martinsried/Planegg, comprising the balance sheet, the income statement, cash flow statement, statement of changes in equity and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1, 2006 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315 a (1) HGB [»Handelsgesetzbuch«: »German Commercial Code«] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Munich, March 1, 2007

Dr Napolitano
Auditor

Breyer
Auditor

Ernst & Young AG
Wirtschaftspruefungsgesellschaft
Steuerberatungsgesellschaft

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

of MediGene AG, Martinsried / Planegg as per December 31, 2006

- **Total revenues: 31.2 million € (2005: 19.7 million €)**
- **Net loss: 6.9 million € (2005: 12.0 million €)**
- **Average monthly net cash burn rate: 0.2 million € (2005: 0.9 million €)**
- **Cash and cash equivalents: 52.5 million € (2005: 37.6 million €)**

Company overview

MediGene AG, Martinsried (hereinafter referred to as MediGene) is a biopharmaceuticals company which focuses on the research, development and commercialization of innovative drugs, concentrating on indications of great medical necessity and substantial commercial interest. R&D activities center upon cancer and autoimmune diseases, while the group's sales and marketing activities focus on dermatology.

Organizational and legal structure of the MediGene Group

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

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

Segments and major locations

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

Products and markets

MediGene's first drug on the market, the cancer medication Eligard®, is now available in most European countries and is marketed by partner company Astellas Pharma Europe Ltd. A second drug, Polyphenon® E Ointment, was approved for marketing under the name of VeregenTM by the US regulatory authority on October 31, 2006 and is slated to be launched on the US market by MediGene's marketing partner Bradley Pharmaceuticals, Inc., in the second half of 2007. Furthermore, MediGene secured the European marketing rights for Oracea™ from US specialty pharmaceuticals company CollaGenex, Inc. Just as MediGene's Polyphenon® E Ointment, Oracea™ is prescribed mainly by dermatologists, allowing for joint distribution of the two products. MediGene will initially focus on a small number of high-potential European markets and seek distribution partnerships for the other European countries.

MediGene additionally has several oncological drug candidates in clinical development, including EndoTAG™-1 and the oncolytic herpes simplex viruses G207 and NV1020. In the field of immunology, MediGene is developing drug candidate RhuDex®, which is undergoing clinical trial as a treatment for rheumatoid arthritis. MediGene products at the preclinical or research stage include drug candidates based on mTCR technology and the L1 Project for the development of a therapeutic monoclonal antibody to treat ovarian cancer.

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

Competitors

The biopharmaceutical sector is highly competitive and subject to swift and significant technological change. The corporation faces numerous competitors across the globe, among which are biopharmaceuticals, pharmaceuticals and biotechnology companies, universities and other research institutes. From the corporation's point of view, a large number of companies are actively involved in the development and commercialization of comparable projects and products in the fields of cancer, autoimmune diseases and dermatology.

Cooperations and licensing agreements

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

In January 2004, MediGene concluded a partnership with Astellas Pharma Europe Ltd., Staines, UK, for the commercialization of the cancer drug Eligard® in Europe. A leading European pharmaceuticals company in the field of urology, Astellas Pharma handles the marketing and distribution of Eligard® in Europe. In addition to a one-time payment upon signing the contract and other milestone payments already effected, MediGene will also receive a share (royalties) in the revenues generated by Eligard®. Milestone payments still outstanding concern specific sales milestones. The term of the contract corresponds to the duration of the European patents.

MediGene and Bradley Pharmaceuticals conclude licensing agreement for marketing Polyphenon® E Ointment in the US

Effective January 30, 2006, MediGene began a partnership with Bradley Pharmaceuticals, Inc. for marketing Polyphenon® E Ointment in the United States. The term of the contract is at least as long as the patent duration. Bradley Pharmaceuticals, Inc., a US specialty pharmaceuticals company with a focus on dermatology, will market and distribute the ointment for the treatment of genital warts in the US.

Depending on specific milestones being achieved, MediGene will receive successive payments with a total volume of up to 69 million US$. In addition, MediGene will participate in Polyphenon® E Ointment sales. Milestone payments are linked to progress made in the development, market authorization, and marketing of Polyphenon® E Ointment for the indications genital warts and actinic keratosis, and to certain sales targets being met. Within the agreed development partnership Bradley will cover the bulk of the costs incurred if Polyphenon® E Ointment is developed for additional dermatological indications. MediGene has the right of use for all development results outside the United States. In the US, Bradley holds the marketing rights for Polyphenon® E Ointment for all skin diseases.

Acquisition of European marketing rights for dermatological product Oracea™ from US company CollaGenex, Inc.

MediGene has acquired the European marketing rights for Oracea™ from US specialty pharmaceuticals company CollaGenex, Inc. The drug for the treatment of the skin disease rosacea is in an advanced stage of the authorization process in Europe, and has already been introduced onto the US market. CollaGenex will receive a spot payment of approximately 3.8 million € for Oracea™ from MediGene, as well as a share in Oracea™ sales and milestone payments for the attainment of specified sales goals. The application for market authorization for this drug has been submitted in ten European countries to date. MediGene expects to receive market approval for the drug in the first half of 2007. The launch of Oracea™ is planned for the latter half of 2007. Oracea™ was developed by US company CollaGenex and was introduced onto the US market this year with promising initial sales. The term of the contract will last for the duration of the Oracea™ patents in Europe.

Other licensing agreements

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

In early 2006, MediGene granted US-based Virionics Corporation licenses to utilize the CVLP-Vaccine program. In return, MediGene is to successively receive a share of up to 15% in Virionics Corporation. Given successful development, MediGene can receive shares in sales revenues and milestone payments arising from third-party sublicensing. MediGene retains the European marketing rights for successfully developed drugs (see page 98).

State of product portfolio and research and development activities

In 2006, MediGene substantially expanded the development portfolio with its takeover of British company Avidex Ltd. Avidex Ltd. has a particular focus on the development of the drug candidate RhuDex®, mTCR technology and derived candidates. In addition, MediGene acquired licenses for Oracea™ and the L1 Project.

Eligard®

Astellas Pharma Europe Limited (Staines, UK) completed the market launch of the one- and three-month depot formulations of Eligard® by the end of 2006. In December 2006, the six-month dosage of Eligard® was granted market authorization in Germany. The requirements for the 2007 market launch are thus fulfilled. The six-month dosage constitutes a unique selling point for Eligard® and thus increases this drug's competitive capacity.

Polyphenon® E Ointment

On October 31, 2006, the US drug authorization authority FDA granted market authorization for MediGene's Polyphenon® E Ointment for the treatment of genital warts. Genital warts are benign but contagious and disfiguring skin tumors in the genital and anal regions which are difficult to treat. Approximately 14 million people in North America and 15 million people in Europe are infected with the human papilloma virus (HPV 6 or 11), the virus which causes genital warts. The active ingredient in Polyphenon® E Ointment is extracted from green tea leaves. The product is to be introduced onto the US market in the second half of 2007 by MediGene's partner Bradley Pharmaceuticals, Inc. In addition, the company plans to submit applications for authorization in three European countries. MediGene retains the worldwide marketing rights for the drug.

Oracea™

In December 2006, MediGene acquired the European marketing rights for Oracea™ from US specialty pharmaceuticals company CollaGenex, Inc. The application for market authorization has been submitted in ten European countries to date. MediGene expects Oracea™ to be approved in the first half of 2007 with a subsequent market introduction in the latter half of 2007. The company plans to handle joint marketing of Oracea™ and Polyphenon® E Ointment in select European countries.

EndoTAG™-based therapeutics

Drug candidate EndoTAG™-1 has been undergoing a clinical phase II trial for the treatment of pancreatic cancer since August 2005. EndoTAG™-1 combines the established cancer drug Paclitaxel with a carrier system that delivers the active agent directly on newly-formed blood vessels in the tumor. If these blood vessels are destroyed, the supply of nutrients is reduced and the tumor »starved out.« Apart from examining safety and compatibility, the initiated trial particularly focuses on the clinical effectiveness of different dosages of EndoTAG™-1 in combination with Gemzar®, a cytostatic from Lilly Deutschland GmbH already approved for the treatment of pancreatic cancer. Approximately 200 patients are expected to take part in the trial. In December 2006, MediGene reported on positive interim results of the ongoing trial. The findings showed a sound safety profile and preliminary indications of the effectiveness of EndoTAG™-1 in combination with the cancer drug Gemzar®. In the majority of patients treated with EndoTAG™-1, the seven-week treatment was able to slow down, stabilize, or ameliorate the course of the disease. The most efficient dosage branch in the interim findings shows a 67% response rate, as compared to 50% in the control group. The efficiency analysis is based on 47 patients whose treatment cycle was concluded at the time of evaluation. The administration of EndoTAG™-1 in low and medium dosages in combination with Gemzar® did not effect any notable changes in the adverse events profile. The highest dosage category led to an expected reduction in compatibility which, however, was tolerable and not a cause for concern. As the number of cases is still small, the figures of the preliminary analysis are not yet statistically viable. MediGene expects final results of the trial by early 2008.

In October, the European Agency for the Evaluation of Medicinal Products (EMEA) recommended granting Orphan Drug Status for MediGene's drug candidate EndoTAG™-1 for the treatment of pancreatic cancer. This recommendation is pending confirmation by the European Commission. Orphan Drug Status guarantees market exclusiveness within the European Union for a ten-year period following the granting of authorization.

MediGene is preparing another clinical phase II trial for drug candidate EndoTAG™-1 for the treatment of triple-receptor-negative breast cancer. The trial is to begin in early 2007 and will be carried out in several European countries.

State funding totaling 1.8 million € will be available over the next two years for investigating the application of EndoTAG™ technology in the treatment of other diseases.

RhuDex®

RhuDex®, an active ingredient for the treatment of rheumatoid arthritis, is an orally administered CD80 inhibitor which blocks the activation of $CD4^+$ T-cells. RhuDex® works as an immunosuppressant and has an anti-inflammatory effect, making it particularly suitable for treating rheumatoid arthritis. Rheumatoid arthritis is a chronic inflammatory disease which afflicts 1% of the world's population. RhuDex® has gone through all the preclinical development stages. In addition, compatibility and safety were examined on healthy test persons in an initial clinical trial. A clinical phase IIa trial, in which 35 patients are to participate, was initiated at the beginning of 2007 and is to be concluded by the end of the same year.

Drug candidates based on oncolytic herpes simplex virus technology

In mid-September 2006, MediGene presented interim analysis results of the phase I/II trial on the cancer cell-killing virus NV1020 for the treatment of liver metastases derived from colorectal cancer. The results showed clear indications of effectiveness for pateints receiving the highest dosage level. The Data Safety Monitoring Board (DSMB), an independent body which monitors patient safety, has recommended a clinical phase II trial at the highest dosage level. An additional 18 people are to be included in this part of the trial.

In 2005 MediGene decided to begin a clinical phase I trial at the University of Alabama in Birmingham, USA, on the oncolytic herpes simplex virus G207 for the treatment of malignant brain tumors. The trial, which was continued in 2006, examines safety, compatibility, and effectiveness trends of G207, as well as a possible synergistic effect in conjunction with radiotherapy.

Preclinical development projects

As part of a cooperation agreed with the German Cancer Research Center (DKFZ) in July 2006, MediGene is developing a therapeutic monoclonal antibody against the ovarian cancer protein L1, which is found specifically on the cell surfaces of malignant ovarian and endometrial tumors (ovarian and uterine carcinoma). MediGene is currently working on the preclinical development of an appropriate monoclonal antibody.

The portfolio of subsidiary Avidex Ltd., acquired in September 2006, contains additional drug candidates in the preclinical development stage, including EsoDex™ against lung and bladder cancer, YourDex™ against psoriasis, and HiDex™ for the treatment of diabetes type 1.

mTCR technology platform

MediGene is using the mTCR technology platform to develop recombinant completely human, soluble T-cell receptors (mTCRs). The mTCRs have a highly specific capability to detect and bind peptide antigens such as the cancer markers presented by the Major Histocompatibility Complex (MHC). Monoclonal antibodies, on the other hand, cannot reach these antigens. Soluble T-cell receptors therefore open up new avenues in the fight against cancer, autoimmune diseases, allergies, and other infectuous diseases. In December 2006, MediGene signed a cooperation agreement with Sanofi Pasteur, Inc., the vaccines division of the Sanofi-Aventis Group. The companies have agreed to develop the technology for the validation of the presentation of T-cell antigens. Such a test is important for the development and clinical testing of vaccines. In addition to the reimbursement of research and development costs, MediGene will receive royalties and milestone payments.

Capital increases

In the past financial year, MediGene supported the continued expansion of the product portfolio by broadening its equity base. As a first step, a corporate action was successfully concluded at the beginning of the year, and the issuance of 1,852,260 new shares increased the cash reserves by 15,651,597 €. The new stock was placed with institutional investors in Europe and the US.

On September 27, 2006, MediGene acquired 100% of the outstanding shares and the associated voting rights of Avidex Ltd. Shareholders of Avidex Ltd. initially received a total of 8,030,618 new MediGene shares from authorized capital in exchange for all outstanding Avidex shares. In a second step, Avidex shares created by exercised options were swapped for 127,169 MediGene shares after December 31, 2006. Market protection agreements (»lockup«) with a duration of twelve months were concluded with the previous Avidex Ltd. shareholders for 6,478,726 new shares.

In the course of the acquisition, MediGene agreed an option on incremental capital increase in return for cash contributions, so-called »step-up« financing, with investment bank Société Générale. The option has a duration of 18 months and can increase nominal capital by up to 2 million shares in return for cash contributions.

General conditions

Partnerships and licensing agreements between pharmaceuticals and biotechnology companies

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

MediGene thus seeks to establish partnerships by granting licenses (so-called »outlicensing«), and also intends to expand the portfolio, which comprises Polyphenon® E Ointment and Oracea™, by becoming a licensee for attractive products. Therefore, MediGene constantly monitors the market for new developments and reviews individual product candidates as part of its license acquisition activities. The continuing process of consolidation and restructuring in the pharmaceutical and biopharmaceutical industries is creating additional opportunities to execute this strategy.

Government grants

In financial year 2006, public authorities agreed to allocate a total of 1.8 million €, spread over the next two years, in support of MediGene's EndoTAG™ research. In view of the future, the company assumes that the government will continue to appreciate biotechnology as a key industry in the German economy and promote the development of this sector.

Regulatory and economic conditions

The regulatory framework relevant to MediGene remained virtually unchanged in 2006.

However, the persistent cost pressure on the providers of medical services may lead to further legislation to reduce the cost of drugs, which could also affect the pharmaceutical and biopharmaceutical sectors in Europe and the US. The projected German health care reform envisions three new regulatory instruments for innovative pharmaceuticals: cost-benefit assessment, refund ceilings, and second medical opinions. The consequences of these refund regulations for innovative drugs remain incalculable at this point in time.

The European Central Bank raised the money market interest rates over the course of 2006. A further increase of the money market interest rates in the eurozone is expected for financial year 2006. Within the reporting period, the euro reference rate increased by approximately 11% from 1.1825 to 1.3182 US$ (source: Dresdner Bank foreign currency reference rates).

Assets position

Cash reserves: 52.5 million €; Equity-to-asset ratio: 87%

Development of assets and capital structure

In T€	2006	2005	Change
Assets			
Long-term investments	**1,598**	1,355	18%
Goodwill	**13,041**	9,226	41%
Fixed and intangible assets	**52,236**	7,680	>200%
Cash and cash equivalents	**52,498**	37,625	40%
Other assets	**4,763**	1,176	>200%
Total assets	**124,136**	**57,062**	**118%**
Liabilities			
Shareholders equity	**108,512**	51,777	110%
Non-current liabilities	**1,266**	312	>200%
Current liabilities	**14,358**	4,973	189%
Total liabilities and equity	**124,136**	**57,062**	**118%**
Liquidity cover ratio	**42%**	**66%**	
Equity ratio	**87%**	**91%**	

Assets

Compared to the previous year, the group's balance sheet total increased by 118% to 124,136 T€ (December 31, 2005: 57,062 T€) due to the Avidex Ltd. takeover.

Total fixed assets – excluding goodwill and financial assets – increased by more than 200% to 52,236 T€ (2005: 7,680 T€), of which property, plant and equipment accounted for 1,391 T€ (2005: 1,137 T€). Intangible assets showed an acquisition-related increase of 6,543 T€ to 50,845 T€. The 3,793 T€ cost of acquiring the Oracea™ license is stated in intangible assets. In addition, the intangibles include patents and licenses for the EndoTAG™ products and technology acquired in 2004.

As per the closing date, goodwill showed an increase from 9,226 T€ to 13,041 T€ resulting from the acquisition of Avidex Ltd. Goodwill arising from the acquisition of Avidex Ltd. (3,815 T€) is based on synergy effects with MediGene's existing preclinical and clinical development and approval business units. In addition, an increase in the number of line extensions for RhuDex® and additional, previously unconsidered, application potentials for the mTCR products and platform contribute to this position.

A goodwill of 9,226 T€ stems from the acquisition of MediGene, Inc. Impairment of this goodwill is based on the two projects G207 and NV1020. The annual impairment test showed an overall decrease of the project value. Nevertheless, as per the closing date the calculated fair value of the underlying CGU (cash generating unit) of both projects exceeded the book value of the CGU that includes goodwill (cf. Notes to the Consolidated Financial Statements F), Item (42), p. 87). In particular, recent developmental success of competing products will significantly impair future market opportunities for NV1020 and G207.

Long-term financial assets consist in 233,918 shares of the Canadian company QLT, Inc. MediGene did not sell any shares in 2006. As of the closing date December 31, 2006, the market value of the shares quoted in US dollars increased to 1,501 T€ (2005: 1,258 T€). An earnings-neutral record of the equivalent gains of 243 T€ was included in equity.

There were trade receivables present at the end of the reporting period amounting to 769 T€ (2005: 2 T€).

As per December 31, 2006, the cash reserves were 52,498 T€ (December 31, 2005: 37,625 T€). The increase results from a capital increase in March 2006 and the cash inflow generated by the acquisition of Avidex Ltd.

Eligard® inventories worth 401 T€ were present as of the closing date. Eligard® is not stockpiled but resold to sales partner Astellas Pharma shortly after procurement.

Other current assets totaled 3,593 T€, of which 614 T€ were reclaimed sales tax and 1,662 T€ were deferred product and licensing revenues which had not yet been billed.

Liabilities

Over the reporting period, equity increased due to the issuance of new shares against cash contributions (1,852,260 shares at 8.45 € each) and in return for contributions in kind of the Avidex Ltd. shares (8,030,618 shares at an issue price of 5.96 € each).

Notwithstanding, the equity-to-asset ratio decreased from 91% (December 31, 2005) to 87% (December 12, 2006) in closing date comparison. In addition, the 3,793 T€ payment for the Oracea™ license not due until January 2007 was reported in other current liabilities as per the balance sheet date.

Debt capital (long- and short-term liabilities) increased by more than 196%, totaling 15,624 T€ as per the closing date; this is equivalent to 13% of the total assets.

Current liabilities increased by 189% from 4,973 T€ to 14,358 T€. They contain the Oracea™ license fee of 3,793 T€ which was still due for payment as of the closing date. Trade accounts payable of 2,638 T€ (2005: 845 T€) consisted in outstanding accounts, primarily for services rendered to MediGene. In addition, there are current liabilities consisting in due payments of 1,380 T€ (2005: 725 T€) for product licenses and open accounts for clinical trials and authorization totaling 1,714 T€ (2005: 353 T€).

Not all of the new MediGene shares arising from the acquisition of Avidex Ltd. had been issued as per the balance sheet date and are therefore stated in the balance sheet as financial obligations totaling 610 T€.

A provision of 780 T€ was formed for compliance with the FDA requirements associated with the approval of Polyphenon® E.

Deferred income of 298 T€ results from a reported advance payment which MediGene had received upon the conclusion of a new cooperation agreement for the mTCR technology. The deferred income is reversed proportionately over the contract period with effect on net income.

The liquidity ratio, calculated as the share of cash and cash equivalents in total assets, was 42% (2005: 66%) as of the balance sheet date.

Working capital – the difference between current assets and current liabilities – increased mainly due to the 27% cash increase from 33,828 T€ to 42,903 T€.

Financial position

Change in cash reserves

A total net increase of cash and cash equivalents of 14,873 T€ was reported for 2006. The ending balance of cash and cash equivalents was 52,498 T€, representing 42% of total assets (2005: 66%). No open credit lines existed.

Change in cash reserves

In T€	2006	2005	Change
Net cash used			
in operating activities	**-2,553**	-11,217	77%
in investing activities	**1,996**	-413	>-200%
in financing activities	**15,311**	841	>200%
Decrease/increase in cash and cash equivalents	**14,873**	**-10,835**	**>-200%**
Cash and cash equivalents at beginning of period	**37,625**	48,460	-22%
Currency translations	**119**	-46	>-200%
Cash and cash equivalents at end of period	**52,498**	**37,625**	**40%**
in % of balance sheet total	**42**	66	

Net cash outflow from ordinary activities decreased by 77% to -2,553 T€ in the reporting period (2005: -11,217 T€), the most significant contributions being net cash inflows from milestone payments by marketing partners Astellas Pharma and Bradley Pharmaceuticals. Net cash outflow from ordinary activities was indirectly derived from net loss for the year.

Compared to net cash outflow incurred by investment activity totaling -413 T€ in the previous year, a net cash inflow of 1,996 T€ was reported in the year under review. The acquisition of Avidex Ltd. in 2006 generated a net cash inflow of 6,276 T€ for the MediGene Group.

Net cash inflow from financing activity totaled 15,311 T€ for the reporting period (2005: 841 T€). MediGene received approximately 15,7 million € from a capital increase for cash in March 2006.

Average monthly cash burn rate from ordinary activities
The consolidated cash flow statement for 2006 shows a net cash burn rate from ordinary activities of -2,553 T€ (2005: -11,217 T€) and an average monthly burn rate of -212 T€ (2005: -935 T€). The cash burn rate from ordinary activities bears limited informative value concerning future development, as it is fundamentally influenced by one-time milestone payments from partners and by R&D expenditure which is subject to project status-dependent fluctuations.

Investments

Total investments increased significantly to 66,778 T€ in the reporting period (2005: 18,164 T€). This was effected by the takeover of Avidex Ltd. and the acquisition of the European marketing rights for drug candidate Oracea™.

Investments largely consist of 40,961 T€ for intangible assets of Avidex, 9,884 T€ for the licenses for the EndoTAG™ technology and Oracea™, and 1,391 T€ for property, plant and equipment including software. Investments also contain goodwill amounting to 13,041 T€.

In the course of the Avidex Ltd. Acquisition, MediGene capitalized intangible assets totaling 40.9 million €, a goodwill of 3.8 million €, and property, plant and equipment totaling 366 T€. In addition, the one-time payment of 3.8 million € for the acquisition of the Oracea™ license was capitalized in the form of a technology license.

Additional investments in property, plant and equipment and software totaled 488 T€ and mainly served to procure laboratory equipment and information technology. No investments were made in so-called capital leases. Of the 488 T€, 5 T€ were allotted to the Specialty Pharma segment and 206 T€ to the Biopharma segment. The remaining amount could not be clearly attributed to either segment. Investments made in the Biopharma segment were incurred mainly by the procurement of laboratory equipment.

On the whole, investments were spread over a multitude of devices and facilities. There were no noteworthy singular investments (>100 T€) effected in the reporting period.

Income postition

Total revenues
Total revenues in the reporting period increased by 59% to 31,224 T€ from previously 19,682 T€ (2005). Revenues primarily arose from the commercialization of the drug Eligard® and from the licensing agreement for the Polyphenon® E Ointment concluded with Bradley Pharmaceuticals, Inc. The revenues comprise product sales, licensing earnings and milestone payments. All income was generated solely by MediGene AG.

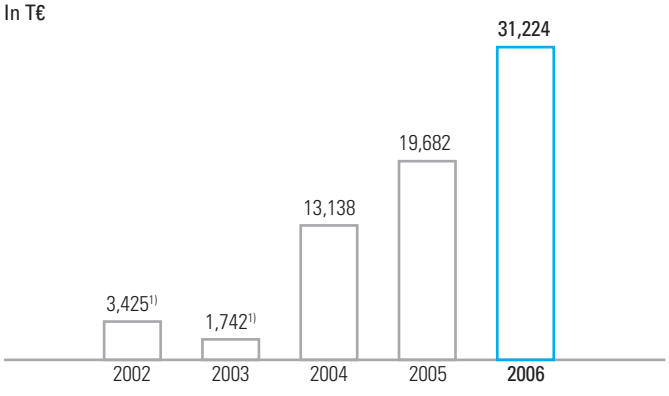
Operating income, also termed EBIT (Earnings Before Interest and Taxes), is an absolute indicator of a company's income. It will be used in the following as period income before taxes, net interest income and currency exchange gains/losses.

Income statement (abbreviated)

In T€	2006	2005	Change
Total revenues	**31,224**	**19,682**	**59%**
Cost of sales	**10,669**	9,077	18%
Gross profit	**20,555**	**10,605**	**94%**
General administrative and selling expenses	**7,639**	6,123	25%
Research and development expenses	**21,275**	15,997	33%
EBIT	**-8,359**	**-11,515**	**27%**
Result before income tax	**-7,606**	**-12,044**	–
Tax	**715**	0	–
Net loss from continued operations	**-6,891**	**-12,044**	**43%**
Result from discontinued operations	**0**	-1	–
Net loss	**-6,891**	**-12,045**	**43%**

In the closed financial year, the market share expansion of the one- and three-month formulations and new market introductions effected an increase in product and licensing revenues. In total, sales increased by 9% to 11,724 T€ (2005: 10,794 T€)

Total revenues
In T€



[1)] According to US GAAP

and the one-time effects of stockpiling in the previous year for the European market launch were compensated. The revenues from product sales and licensing result solely from the sale of Eligard®.

Milestone payments more than doubled, increasing to 18,825 T€ (2005: 8,761 T€). In addition to milestone payments for the launch of Eligard® in France and Italy, initial milestone payments were received for the commercialization of Polyphenon® E Ointment. In early 2006, MediGene had concluded a development and marketing partnership for the ointment in the US with the American company Bradley Pharmaceuticals, Inc. With the last authorization-related Eligard® milestone achieved, MediGene reversed completely and with effect on net income existing deferred income totaling 667 T€ that had been formed on conclusion of the marketing agreement with Astellas Pharma.

Other revenues totaled 675 T€ (2005: 127 T€), of which grants amounted to 518 T€ (2005: 0 T€). Within the scope of two research grant programs, MediGene will receive grants for the EndoTAG™ technology totaling 1.8 million € over a two-year period.

The distribution of revenues over the individual segments is presented in the Segment Report page 53.

Cost of sales

Procurement costs of the individual revenues totaled 10,669 T€ (2005: 9,077 T€). This comprises primarily the expenses incurred by the purchase of Eligard® and a corresponding participation of QLT, Inc. in sales revenues. In addition, costs also include the forming of a provision for a clinical trial with the Polyphenon® E Ointment still to be conducted. Implementation of this trial was one of the requirements of US authority FDA for authorization of the ointment in the US.

Gross profit

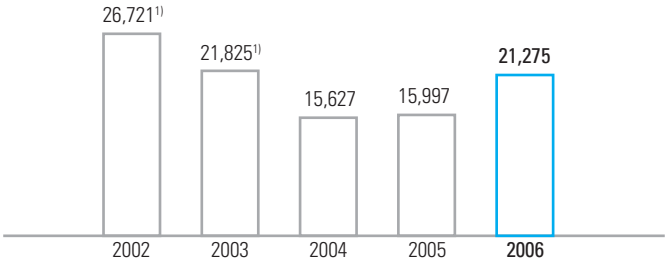
Gross profit totaled 20,555 T€ in 2006 (2005: 10,605 T€).

General administrative and selling expenses

In annual comparison, general administrative expenses and selling and distribution costs increased from 6,123 T€ (2005) to 7,639 T€ (2006). The amount was comprised of 1,504 T€ in selling and distribution costs (2005: 1,100 T€) and 6,135 T€ in general administrative expenses (2005: 5,023 T€). The increase in distribution and administrative expenses is a result of the acquisition of Avidex Ltd. in late September 2006.

R&D expenditure

In T€



[1)] According to US GAAP

Selling and distribution costs were incurred primarily by the business development group. This division is involved, among other things, in the commercialization of MediGene's product candidates and technologies within the scope of partnerships.

R&D expenses

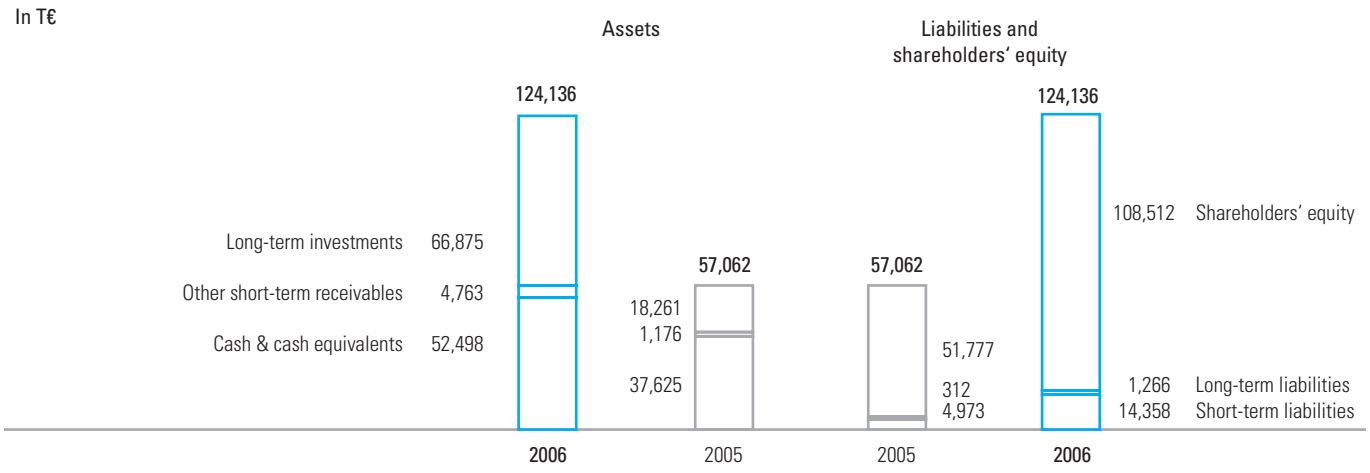
Total expenditure for research and development increased by 33% to 21,275 T€ (2005: 15,997 T€). The increase in research and development costs arises from the clinical development progress of drug candidate EndoTAG™-1 for the treatment of pancreatic cancer and the consolidation of British subsidiary Avidex Ltd. since September 2006. The decrease of R&D costs in the Specialty Pharma segment is a result of lower expenditure for Polyphenon® E Ointment, for which costs of clinical trials had still been posted in 2005. Segment-specific allocation of R&D expenses is presented in the Segment Reports on page 53.

Depreciation

There was an overall decrease of the depreciation amount from 1,348 T€ (2005) to 1,068 T€ (2006). Regular depreciation on intangible assets corresponds to the patents and licenses taken over from the former Munich Biotech AG in August 2004.

Concerning the reported goodwill of 13,041 T€, the impairment test as per December 20, 2006 showed that no depreciation was required.

Balance sheet structure



Depreciation

In T€	2006	2005	Change
Fixed assets	**544**	698	-22%
Intangible assets	**452**	483	-6%
Capital lease	**72**	167	-57%
Total	**1,068**	**1,348**	**-21%**

Depreciation is reported in the income statement in general administrative and distribution costs (93 T€) or in research and development costs (975 T€).

EBIT

Earnings before interest and taxes (EBIT) in continuing operations decreased by 27% from 11,515 T€ to 8,359 T€.

EBIT by segments

In T€	2006	2005	Change
Specialty Pharma	**16,868**	1,390	>200%
Biopharma	**-18,058**	-7,152	-152%
Other	**-7,169**	-5,753	-25%
Total	**-8,359**	**-11,515**	**27%**

Financial result

The financial result improved noticeably to 753 T€ in the reporting period (2005: -529 T€). In 2005, MediGene had conducted a fair value adjustment of 1,512 T€ on shares held in the company QLT, Inc.

In 2006, interest income grew due to an increased invested amount. Interest expense increased mainly due to leasing of property, plant and equipment. Currency exchange losses were incurred by the translation of milestone payments from US dollars into euros.

Financial result

In T€	2006	2005	Change
Interest income	**1,298**	827	57%
Interest expense	**-11**	-149	-93%
Sub-total	**1,287**	**678**	**90%**
Expenses from securities	**0**	-1,512	–
Losses from embedded derivatives	**-101**	0	–
Foreign exchange gains/losses	**-433**	305	>-200%
Total	**753**	**-529**	**>200%**

Net loss

Compared to the same period of the previous year, MediGene reduced net loss by 43% from 12,045 T€ auf 6,891 T€. The increase in sales and the associated improvement in gross profit overcompensated the increase in operating cost.

Loss per share

Net loss per share was reduced by 53% from -0.65 € (weighted average number of shares 18,560,027) to -0.31 € (weighted average number of shares 22,410,901) in financial year 2006. In addition to the clear reduction of net loss, the increase of the average number of shares resulted in improved earnings per share.

Net loss at full dilution as of the reporting date was equivalent to actual loss, as the conversion of ordinary share equivalents would counteract the dilution effect.

Effects of the acquisition of Avidex Ltd. on the financial and income position of the MediGene Group

Subsidiary Avidex Ltd. was first included in the MediGene Group's basis of consolidation on September 27, 2006. The effects of the consolidation on the group's financial and income position are reported in the Notes to the consolidated financial statements (No. note (C), page 82 f.).

Segment reports

The MediGene Group's activities are classified in the segments »Specialty Pharma« and »Biopharma« (see page 98 f. – »Definition of Segments«). The »Specialty Pharma« segment comprises the drug Eligard® and product candidates Polyphenon® E Ointment and Oracea™; the »Biopharma« segment denotes MediGene's activities concerning the product candidates EndoTAG™-1, RhuDex®, NV1020, G207 and the preclinical drug candidates EsoDex™, YourDex™ and HiDex™. In addition, the technology platforms EndoTAG™ and mTCR are attributed to this segment.

Combined in »Other« are those items which cannot be explicitly attributed to an individual segment.

Specialty Pharma segment

The drugs Eligard® and Polyphenon® E Ointment currently account for more than 95% of the total revenues of the MediGene Group. This is the first time that segment revenues include gains from the commercialization of Polyphenon® E Ointment within the scope of the marketing partnership concluded with Bradley Pharmaceuticals. In December 2006, MediGene acquired the European marketing rights for Oracea™. Acquisition cost for the license was capitalized and allocated to segment assets.

Specialty Pharma

In T€	2006	2005	Change
Total revenues	**30,554**	15,591	96%
Cost of sales	**-10,669**	-9,077	18%
Gross profit	**19,885**	**6,514**	**>200%**
Selling expenses	**-429**	-309	39%
R&D expenses	**-2,588**	-4,815	-46%
EBIT	**16,868**	**1,390**	**>200%**
Average number of employees	**14**	21	-33%

Total revenues Specialty Pharma

In T€	2006	2005	Change
Product revenues and royalties	**11,724**	10,774	9%
Milestone and upfront payments	**18,825**	4,761	>200%
Research grants	**0**	0	–
Other income	**5**	56	-91%
Total	**30,554**	**15,591**	**96%**

Biopharma segment

Revenues allocated to the Biopharma segment arise primarily from two research grant programs for the EndoTAG™ technology. Total volume is 1.8 million €, of which 0.4 million € was accounted for by the BioChance Plus program of the Federal Ministry of Education and Research (BMBF) and 1.4 million € are grants from the Bavarian Research Foundation. The funds are allocated for a two-year period.

Biopharma

In T€	2006	2005	Change
Total revenues	**629**	4,030	-84%
Cost of sales	**0**	0	–
Gross profit	**629**	**4,030**	**-84%**
Selling expenses	**0**	0	–
R&D expenses	**-18,687**	-11,182	67%
EBIT	**-18,058**	**-7,152**	**-152%**
Average number of employees	**80**	57	40%

Total revenues Biopharma

In T€	2006	2005	Change
Product revenues and royalties	**0**	0	–
Milestone and upfront payments	**0**	4,000	–
Research grants	**518**	0	–
Other income	**111**	30	>200%
Total	**629**	**4,030**	**-84%**

Employees

Number of group employees

As per the end of 2006, the number of MediGene's employees totaled 171, comprising 123 in Martinsried (2005: 107 employees), six at MediGene, Inc. in the US (2005: 7 employees), and 42 at Avidex Ltd. in the UK. Personnel expenses added up to 11,801 T€ (2005: 9,931 T€) in the period under review.

Employees by function (as at Dec. 31)

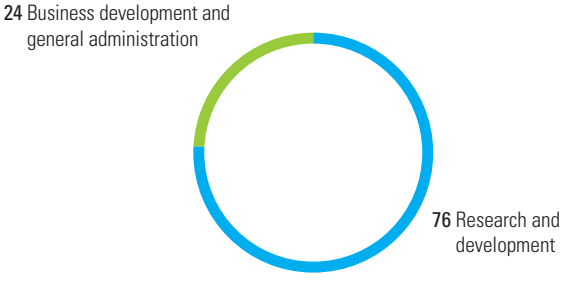
	2006	2005	Change
Business development and general administration	41	34	21%
Research and development	130	80	63%
Total	171	114	50%

Employees by region (as at Dec. 31)

	2006	2005	Change
MediGene AG, Martinsried	123	107	15%
MediGene, Inc., San Diego	6	7	-14%
Avidex Ltd., Abingdon	42	0	–
Total	171	114	50%

Employees by function[1)]

In %



[1)] as at December 31, 2006

Compensation of Executive Board and Supervisory Board

Executive Board compensation

The total compensation including pension benefits paid to the members of the Executive Board in the last financial year was 1,173 T€ (2005: 974 T€). This amount included 57 T€ for pensions (2005: 70 T€). Executive Board compensation comprises fixed and variable components, as well as performance incentives to increase the company's value in the long run . The criteria for the variable compensation components are laid down in advance each year. Long-term compensation components consist in stock options. The intention is to create performance incentives aimed at sustained corporate success. Success benchmarks may not be changed subsequently. There were no advance payments to board members.

Supervisory Board compensation

Supervisory Board compensation totaled 247 T€ in 2006 (2005: 268 T€). Total compensation of the members of the Supervisory Board comprises a fixed cash amount and fees for attended meetings. The duties of the Chairman and Deputy Chairman are considered according to their scope. Information on subscription rights of members of the managerial bodies is provided in the Notes to the Consolidated Financial Statements under (K) Item (68) page 104. No advance payments were made to the Supervisory Board.

Performance indicators

Financial performance indicators

The management of MediGene uses revenues, operating loss (EBIT), gross sales margin, liquidity ratio, and equity ratio as performance indicators for the commercial success of the group's activity.

Performance indicators

		2006	2005
Revenue in %	Gross profit x 100 / Revenue	66	54
EBIT in T€		-8,359	-11,515

Asset and finance indicators

		2006	2005
Liquid ratio in %	(Cash + Securities) x 100 / Balance sheet total	42	66
Equity ratio in %	Equity x 100 / Balance sheet total	87	91

Executive Board compensation 2006

Executive Board member	Fixed compensation in T€	Variable, performance related compensation in T€	Other compensation with as long-term incentive	
			Number of stock options no	Fair value of options in T€
Dr Peter Heinrich, Chief executive officer	249	178	20,000	72
Alexander Dexne, Chief financial officer	195	139	20,000	72
Dr Ulrich Delvos, Chief operating officer	239	116	20,000	72
Total	**683**	**433**	**60,000**	**216**

Supervisory Board compensation 2006

Supervisory Board member	Fixed compensation in T€	Variable, performance related compensation in T€	Compensation with as long-term incentive (no. of convertible bonds or stock options)	Compensation for individually performed services in T€
Prof. Dr Ernst-Ludwig Winnacker Chairman	48	20	0	0
Dr Norbert Riedel Vice CHairman	36	15	0	0
Dr Pol Bamelis Member	24	10	0	0
Sebastian Freitag Member	24	10	0	0
Dr Manfred Scholz Member	24	2	0	0
Michael Tarnow Member	24	10	0	0
Total	**180**	**67**	**0**	**0**

Nonfinancial performance indicators

MediGene's commercial success will fundamentally depend on the extent to which patents for products and technologies in the respective regional markets targeted can be obtained and sustained. The intellectual property of the MediGene Group therefore constitutes the pivotal nonfinancial performance indicator of the company. 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 great number of patents or patent applications:

Patents granted and patents scheduled for granting

	Specialty Pharma	Biopharma
Germany/United Kingdom/Europe	6	26
USA	3	64

Pending patent applications

	Specialty Pharma	Biopharma
Germany/Europe	9	56
USA	3	64
International	12	80

Consistent patent strategy provides the basis for commercial success

The company therefore seeks 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 sectors.

Environmental and health protection

Safety and environmental protection at a high level

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

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

Procurement

Procurement is focused on the authorized drugs Eligard®, Polyphenon® E Ointment and Oracea™, as well as services, chemicals and laboratory supplies for research and development. MediGene is intensely engaged in the development and optimization of the production processes of future drugs so that procurement of the required ingredients at a later date can be organized efficiently.

Procurement of drugs

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

MediGene plans to introduce two more drugs in 2007. Concerning the procurement of Polyphenon® E Ointment, the company has reached agreement with contract manufacturers on the production of the green tea extract and the formulation of the ointment. MediGene has projected production of Polyphenon® E Ointment to begin in 2007. MediGene will obtain the drug candidate Oracea™, currently still undergoing the authorization process, directly from its licenser CollaGenex Pharmaceuticals, Inc.

Procurement management for R&D supplies

MediGene is not restricted to individual raw materials suppliers for its R&D work, but instead solicits quotations from various suppliers as a matter of principle and places purchase orders with the most favorably priced supplier, taking into account all quality considerations. Procurement is organized in such a way that

MediGene is able to ensure a supply that is as stable as required and resilient to possible bottlenecks or quality problems, while optimizing its purchase prices. Given that price development stays in the usual range, procurement costs are of secondary importance within MediGene's cost structure.

Complex demands on service providers

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

Risk report

Risks of drug development

Industry and market risks

MediGene is subject to the typical industry and market risks that are inherent in the development of pharmaceutical products using innovative technologies. Experience shows that the development of a drug takes 10 to 15 years. There exists a fundamental risk that some or all of MediGene's products may not be developed or marketed successfully. There is also the possibility that some product candidates will fail to obtain the regulatory approval that is required for marketing and 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 may be a marketing obstacle for 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 the preclinical development stage, followed by the individual phases of the clinical trials in 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. After the evaluation of the application and data submitted, the authority decides whether or not to grant market authorization. There is a possibility that approval will be denied as a result of the data submitted, or granted only on certain conditions, or that additional data will be required for a final decision on the product's authorization. Delays in the execution of a clinical trial or in patient recruitment may increase costs and postpone the market launch. The results of preclinical and clinical trials are not predictable, and the results obtained in previous trials do not permit any forecasts regarding future trials.

Many biotech companies, including MediGene, have experienced setbacks in clinical trials, even after achieving promising 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 a clinical trial and thus prolong product development significantly.

Authorization risks

Authorization of products may be tied to specific conditions. 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 comprise additional clinical trials or restrictions of application. For instance, authorization may only be granted for a sub-group of patients. In addition, the holder of the authorization must fulfill a multitude of obligations, such as safety monitoring of the approved drug. Authorization – even without additional requirements – obliges MediGene to create and administer a company organization to fulfill these legal requirements. The requirements can be very detrimental to the assets, financial and income position of the company.

Authorization of a drug for one regional market does not allow for direct conclusions to be drawn regarding authorization for other markets. The individual regional or national markets are subject to different legal requirements that can vary significantly. Adherence to the authorization requirements can delay and/or increase the cost of product commercialization, which could be very detrimental to the assets, financial and income position of the company.

Employees

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

Portfolio strategy to reduce overall risk

MediGene's overall risk is determined primarily by the individual risks arising in clinical development, product marketing and corporate financing. The commercial success and future existence of the company both fundamentally depend on successful drug development and commercialization, as well as on capital market conditions. MediGene counters the intrinsically high risk of failure of individual projects by maintaining a broad product portfolio which is based on different technological and scientific approaches that are independent of each other. This reduces, yet cannot eliminate completely, the risk of individual product failures endangering the company or threatening its survival.

Risks of drug commercialization

Procurement risks

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

In December 2005, MediGene concluded a contract with Mitsui Norin Co. Ltd. (Japan) for the manufacture and supply of the active pharmaceutical ingredient for the Polyphenon® E Ointment. Mitsui Norin Co. Ltd. and MediGene are currently establishing the commercial production process for the FDA-approved active ingredient. Formulation of the ointment will be carried out by a German subcontractor.

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

Reimbursement risks

Commercially successful distribution of a drug also depends on whether and to what extent the approved drug is reimbursed by the public or private health insurance carriers in the individual countries. In all European Union member states and in many other countries there are price controls and/or other limitations on reimbursement for drugs. 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

Development and marketing of drugs are subject to fierce competition. This particularly applies to the fields of dermatology, oncology and autoimmune dieases on which MediGene concentrates its activities. Due to its commercial potential, this market segment is the focus of the activities of numerous major pharmaceuticals and specialized biotech companies. MediGene's drug candidates target very serious and/or still insufficiently treatable diseases. In any of these indications, a successful drug would have tremendous market potential. If a competitor is first in launching a product successfully, MediGene's drug could be less competitive or in an inferior position, depending on the product's profile and sales performance. MediGene's portfolio strategy is designed to minimize sales risks.

Risks arising from development and product liability

MediGene is exposed to the risk of substantial indemnification claims if a patient suffers harmful adverse effects while participating in a clinical trial or taking a prescribed drug developed by MediGene. In particular, such claims for indemnification could exceed MediGene's insurance coverage and consequently have a negative impact on the company's financial and revenue position and its cash flow. Although the methods 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 approved. 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 profits, and future profitability is uncertain. Since its founding in 1994, MediGene AG has shown operating losses for every financial year, as expenditure for research and development exceeded sales revenues. MediGene still expects losses for the coming business years. Successfully developed and market-ready product candidates are the prerequisite for reaching the profitability. It cannot be guaranteed that MediGene will be able to achieve this.

Financing risks

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

Foreign exchange risks

MediGene has a subsidiary based in San Diego, USA, and financed by funds from MediGene. Devaluation of the euro versus the US dollar spells rising costs for the US operation. On the other hand, an increase of the value of the euro against the US dollar requires a valuation allowance for MediGene's assets in the US. Since the US site is small, the impact of foreign exchange fluctuations is relatively minor. The same holds true for the British subsidiary Avidex Ltd., whose operations are transacted in British pounds (GBP).

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, billing US dollars.

The development and marketing agreement concluded with Bradley Pharmaceuticals, Inc. is handled in US dollars. Purchasing of Polyphenon® E Ointment is also conducted in US dollars. The contracted milestone payments and the margin resulting from product sales are thus subject to currency fluctuations.

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

Environmental, health and safety risks

MediGene must comply with an extensive range of environmental, health and safety regulations. In the United States, Great Britain and Germany, the group must observe a multitude of different laws and standards relating to health and environmental protection and occupational safety. These laws include regulations concerning the handling of exhaust emissions and disposal of solid and liquid waste. Compliance with the legal standards and requirements will incur investments and operational costs within the ordinary activities. Adherence to the regulations may result in additional future expenditure. Conformance to future regulatory changes could require major investments. The resulting costs could adversely affect the assets, financial and income position of the company.

Legal risks and patent risks

Patent risks

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

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 to continue expanding its technology and product portfolio. In the areas concerned, however, third parties could assert legally protected interest based on industrial property rights or cooperation, research and license agreements. Further legal disputes cannot be ruled out.

Legal disputes

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

On April 20, 2005, the Third Nullity Board at the German Federal Patents Court decided in an oral hearing that all of the claims from the aforementioned patent that Takeda and Wako were asserting against MediGene and Astella before Duesseldorf Local Court were invalid within the Federal Republic of Germany. Takeda and Wako have appealed against this judgment before the Federal Court of Justice (BGH), whose verdict is expected for 2007 at the earliest. At the same time, Düsseldorf Local Court suspended the suit for patent infringement until the final ruling in the suit for invalidity, whereas the patent in question expired in early May 2006.

In the further course of the matter, MediGene lodged an appeal against the granting of European patents EP 1 310 517 B1 and EP 1 330 293 B1 to Wako Pure Chemical Industries Ltd. and Takeda Pharmaceutical Company Ltd., and to Takeda Pharmaceutical Company Ltd. in April and May 2006, respectively. In addition, there was a parallel court case concerning patent infringement in the United States, in which MediGene's supplier and licenser QLT USA, Inc. (formerly Atrix Laboratories, Inc.) and the US marketing partner of QLT USA, Inc., Sanofi-Synthelabo, Inc., were sued on grounds of patent infringement by Takeda Abbott Pharmaceutical Product, Inc., Takeda Chemical Industries Ltd. and Wako Pure Chemical Industries Ltd. According to a press release issued by QLT USA, Inc. on February 9, 2007, this legal dispute was settled out of court.

In May 2003, in order to eliminate any legal uncertainties regarding Polyphenon® E, the company opposed European patent no. EP 0 814 823 B1 of Indena S.p.A., Milan, which covers specific polyphenol fractions in green tea. In June 2004, Indena S.p.A. thereupon limited the patent to a scope which is of no significance for MediGene. In December 2005, the Opposition Division of the European Patent Office repealed the patent in its entirety. At present it is uncertain whether Indena will appeal this decision. In February 2006, Indena appealed this decision. A decision by the board of appeal is expected in 2007 or 2008.

Risk management system

Principles, administration and controlling

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

Portfolio steering and evaluation

MediGene's project portfolio is steered actively and evaluated at regular intervals. The steering function includes the drawing up of development plans for each individual project; these are then adopted by a development committee and their observance is monitored by the Executive Board. The regular evaluation of the individual projects is based on the analysis and assessment of their opportunities and risks. The analysis and assessment not only cover technical risk, but also intellectual property and the scientific assumptions of potential competitors. Other areas covered by the evaluation are clinical development considerations, market authorization terms, process development and portfolio strategy. Another significant element is the analysis of the current and future development of the respective segments of the drug market.

The results are summarized in a feasibility study and a profitability assessment based on reduced cash flows. This provides the basis for any decision relating to MediGene's overall portfolio and future strategic orientation. MediGene's internationally renowned scientific advisors critically examine the company's research and development activities and provide advice based on the latest insights from research and clinical applications.

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

Quality assurance

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

Disclosure requirements in accordance with section 315 (4) HGB

The statements according to Section 315 (4) HGB are outlined below with the exception of the parent company's significant agreements concerning the change of control as a consequence of an acquisition offer. As the company believes that the respective information could result in tangible or intangible disadvantages, such as competitive disadvantages. For this reason the information is not inluded in the following statements.

Composition of subscribed capital, voting rights and privileges

As per the closing date December 31, 2006, the capital stock consisted of 28,653,630 individual registered no-par-value shares. Each share represents one vote in the annual general meeting. There are no restrictions on voting rights. The company did not issue any shares granting privileges of controlling power.

Disposal restrictions on shares

At the end of August 2006, MediGene AG acquired the British company Avidex Ltd. by means of an exchange of shares. The Avidex shareholders received a total of 8,157,787 new MediGene shares. A twelve-month market protection agreement was concluded with the former Avidex Ltd. shareholders for 5,255,058 new shares. This agreement is effective as per September 27, 2006 and expires on September 27, 2007. In addition, 1,223,668 of the shares issued will be held in trust for a period of two years.

Shareholders with an interest of at least 10%

As per the closing date December 31, 2006, the company did not know of any shareholders whose interest exceeded 10% of the capital stock. For disclosure requirements of the Securities Trade Act, see Notes to the Consolidated Financial Statements, page 106.

Holders of shares with privileges

No shares exist granting privileges of controlling power.

Nature of voting rights control if employees have a share in capital and do not directly exercise their right of control

This constellation does not exist within the company.

Authority of Executive Board regarding repurchasing and issuance of shares

No authority was granted to acquire treasury shares in accordance with Section 71 (1) No. 6–8 of the German Stock Corporation Act. According to the Articles of Incorporation of the company, the Executive Board is authorized to issue, with the consent of the Supervisory Board, a total of up to 90,399 new bearer ordinary shares against contributions in cash or kind up to June 1, 2011. The Executive Board is authorized to determine, with the consent of the Supervisory Board, the further content of the share rights and the conditions of the issue of shares. Furthermore the Executive Board is authorized to increase the share capital of the Company up to 1 million € for the purpose of issuing employee shares.

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

Appointment and dismissal of Executive Board and Supervisory Board members

The Executive Board composes of one or more member which are appointed in accordance with Section 84 (1) of the German Stock Corporation Act by the Supervisory Board for a period of no more than five years. Reappointment or the extension of a period of office is permissible, in each case for a maximum period of five years. The Supervisory Board appoints one of the members of the Executive Board as the Chairman of the Executive Board. In accordance with Section 84 (3) of the German Stock Corporation Act, the Supervisory Board is also responsible for the Executive Board's dismissal.

Compensation agreements with Executive Board and Supervisory Board members
No such agreements exist.

Major events since end of period under review

MediGene successfully concludes capital increase in February 2007
MediGene successfully concluded the capital increase that was decided on February 15, 2007. Within the capital increase, DZ BANK used an »accelerated bookbuilding« process to subscribe for 2,062,040 new MediGene shares that were offered to institutional investors in Germany and other countries in Europe at issue price. The issuance was clearly oversubscribed. The result of the issuance of the new shares at an issue price of 6.10 € per share is a gross cash inflow for MediGene totaling approximately 12.6 million €. Upon recording of the capital increase in the Commercial Register, the capital stock of the company, partitioned into the same number of shares, has increased to 30,842,839.00 €.

MediGene intends to utilize the income generated by the capital increase for the creation of a sales organization in the dermatology sector, as well as for financing ongoing research and development projects.

No further changes concerning the business situation had occurred by March 1, 2007.

Outlook and forecast

The projections refer to financial years 2007 and 2008.

General economic conditions
The economic indicators at the beginning of 2007 point to a continuation of the robust economic growth within the eurozone. In addition, money market interest rates are expected to rise further.

Expected development of the biopharmaceuticals industry
Drugs for the treatment of tumor diseases already account for the largest proportion of the global drugs market. Experts are forecasting the market volume of cancer drugs to grow continuously over the next few years. Projections put global sales at more than 60 billion US$ in 2009; current market volume is already approx. 50 billion US$ (source: Datamonitor 2005).

The inadequate efficacy of therapies that are currently available and the increasing frequency of tumor diseases will continue to boost demand for innovative drugs. In the process, market growth will additionally be driven by innovative forms of therapy which, with high efficacy and less adverse effects, can bring about significant improvements in the therapy provided. In the future, these could include MediGene's EndoTAG™ and mTCR technologies, as well as the oncolytic herpes simplex viruses.

The market for drugs for the treatment of autoimmune diseases is also a growth market. In particular, the indication rheumatoid arthritis will emerge globally as a market segment with a total sales volume in excess of 10 billion US$.

Today, market growth for drugs to treat dermatological diseases is amongst others driven by new drugs and technologies. Growing demand exists for improved, safer and more cost-effective drugs, especially in niche indications like rosacea. Accordingly, innovative products exhibit a significant market potential in these indications.

The persistently increasing cost pressure on the providers of medical care could lead to further legislation to reduce the cost of drugs; this could also affect the biopharmaceutical industry in Europe and the US.

Increase in revenues from product sales expected – start of MediGene's own sales activities
The following developments are expected for the Specialty Pharma segment:

Positive impulses from market launch of the six-month depot formulation of Eligard®
The European market launch of the one- and three-month depot forms of Eligard® was successfully completed in 2006. MediGene anticipates an increase in sales revenues from the marketing of Eligard® in the newly added countries and the associated market share gains. MediGene also expects an additional impetus for Eligard® sales to come from the six-month depot formulation of Eligard® (Eligard® 45 mg), which is slated to be launched in Europe in 2007 through partner Astellas Pharma Europe Ltd. The German regulatory authorities already granted market authorization for this dosage of Eligard® in December 2006. In the six-month depot formulation, the active ingredient is released continuously over a period of six months. The six-month dosage is a unique selling point for Eligard® and thus increases this drug's competitiveness.

Polyphenon® E Ointment – market launch in the US scheduled for second half of 2007

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

In late October 2006, MediGene was granted market authorization by the US approval authority FDA for Polyphenon® E Ointment for the treatment of genital warts. The drug is scheduled to be launched in the US by MediGene's marketing partner Bradley Pharmaceuticals in the second half of 2007. MediGene therefore expects product sales of Polyphenon® E Ointment to start generating revenues in 2007.

Polyphenon® E Ointment – submission of application for market authorization in Europe

MediGene is planning to submit an application for market authorization in Europe in the first half of 2007.

Polyphenon® E Ointment – further indications

Decisions regarding further development of the Polyphenon® E Ointment for additional indications, such as actinic keratosis, will be made within the framework of the partnership with Bradley Pharmaceuticals, Inc. Successful development of the ointment in an additional indication would open up more commercial potential.

Oracea™ – authorization expected for first half of 2007, launch scheduled for latter half of 2007

In December 2006, MediGene acquired the European marketing rights for the dermatological product Oracea™ from US company CollaGenex Pharmaceuticals, Inc. The drug for the treatment of the skin disease rosacea is currently in an advanced stage of the authorization process in ten European countries, and has already been introduced onto the US market. MediGene expects authorization to be granted in the first half of 2007. The market launch and initial revenues from marketing Oracea™ are planned for the second half of 2007. Oracea™ was developed by US company CollaGenex and was introduced onto the US market this year with promising initial sales. CollaGenex will participate in Oracea™ sales and milestone payments for the attainment of specified sales goals.

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

MediGene will begin to build its own drug sales organization. The company intends to handle the marketing of Polyphenon® E Ointment and additional dermatological products in selected European countries. Just as MediGene's Polyphenon® E Ointment, Oracea™ is prescribed mainly by dermatologists, allowing for joint distribution of the two products. MediGene will initially focus on a small number of high-potential markets and seek distribution partnerships for the other European countries. MediGene plans to add additional products to its drug sales portfolio in the future. For the larger European countries, MediGene is aiming at annual sales of Oracea™ and Polyphenon® E in excess of 50 million €.

Expansion of EndoTAG™ program – initial results of RhuDex® clinical trial

The following targets have been set for the Biopharma segment:

EndoTAG™-1 – patient recruitment in ongoing clinical phase II trial concluded in first half of 2007; publication of results in first half of 2008

In December 2006, MediGene achieved positive interim results in the ongoing clinical phase II trial with drug candidate EndoTAG™-1 for the treatment of pancreatic cancer. Trial data shows a sound safety profile and initial signs of the efficacy of EndoTAG™-1 in combination with the cancer drug Gemzar®. Safety analysis was based on data from 73 patients who had been treated with EndoTAG™-1 and Gemzar®, or Gemzar® only, at least once before the valuation date in August 2006. Efficiency analysis was based on 47 patients whose treatment cycle had been completed before the evaluation.

MediGene expects final results of the trial in early 2008. Overall, the trial calls for the treatment of 200 patients in three dosage groups and a comparison group (Gemzar® only). By the end of 2006, 145 patients had already been admitted. MediGene expects to conclude patient recruitment according to schedule in the spring of 2007.

EndoTAG™-1 – expansion of the clinical development program into other indication fields planned

MediGene expects a phase II trial with drug candidate EndoTAG™-1 for the treatment of triple-receptor-negative breast cancer to begin in the first half of 2007. The objective of the trial is to examine the efficacy of EndoTAG™-1 for the treatment of this extremely aggressive form of cancer, as well as to generate additional data on drug safety. The trial is to include 135 patients and will be conducted at more than 20 centers in different European countries. Final analysis of the trial is expected in 2009.

RhuDex® – results of a clinical phase IIa pilot trial

A clinical phase IIa trial, in which a total of 35 patients with rheumatoid arthritis are to take part, was initiated at the beginning of 2007 and is scheduled to be completed by the end of the same year.

NV1020 – conclusion of recruitment for clinical phase I/II trial expected in 2007; publication of trial results scheduled for 2008

In mid-September 2006, MediGene presented data from an interim analysis of the phase I/II trial of the oncolytic virus NV1020 for the treatment of liver metastases deriving from colon cancer. This data showed clear signs of efficacy. The trial will continue as scheduled with the highest dosage stage. 18 additional patients are now to be included in a second part of the trial. Patient recruitment is to be concluded in 2007. The final results of the trial are expected in 2008.

R&D projects – goals achieved in 2006

Goals for 2006		
Specialty Pharma		
Eligard®	Market launches in other European countries.	Achieved
Polyphenon® E Ointment	Preparation and submission of marketing authorisation in USA.	Achieved
	Preparation and submission of marketing authorisation in Europa.	Not Achieved
Biopharma		
EndoTAG™-1	Interim analysis of the ongoing Phase II-trial.	Achieved
	Initiation of an additional clinical trial.	Not Achieved
NV1020	Interim analysis by the end of 2006.	Achieved

R&D projects – expected status by December 2007

Goals for 2007	
Specialty Pharma	
Eligard®	Market launch of 6-month formulation of Eligard® in Germany.
Polyphenon® E Ointment	Market launch in USA.
	Submission of marketing authorization application in Europe.
Oracea™	Market launch in Europe.
	Market launch in Germany.
Biopharma	
EndoTAG™-1	Completion of patient recruitment and start of data analysis of the current clinical phase II trial in the indication pancreatic cancer.
	Initiation of a clinical phase II trial in the indication tiple hormone receptor negative breast cancer.
RhuDex®	Announcement of results of the ongoing clinical phase IIa-pilot study.
NV1020	Completion of patient recruitment in the clinical phase II trial part.

Expansion of dermatological product portfolio is a priority

In 2007, MediGene will begin building its own sales organization for dermatological drugs in selected European countries. The starting point for its own marketing activities is Polyphenon® E Ointment und Oracea™. MediGene plans to expand this product portfolio with dermatology product licenses.

Financial forecast

Revenues of 35 million €, increase in operating costs and significant increase of loss based on EBIT

For 2007, MediGene expects total revenues of approx. 35 million €. Income will be generated mainly by product sales arising from the marketing of Eligard®, Polyphenon® E Ointment and Oracea™. The forecast includes the conclusion of new cooperation agreements.

Operational costs will increase noticeably in financial year 2007 due to the planned setting up of the sales organization and the expansion of research and development activities at company headquarters in Martinsried and at subsidiary Avidex. In addition to revenues generated by MediGene's own sale of drugs, the conclusion of research and marketing partnerships for the »blockbuster« candidates EndoTAG™-1 and RhuDex® is a key factor in the development of the company. MediGene will therefore invest heavily in both programs to make them more attractive to potential partners.

MediGene expects an EBIT-based loss of 35 million € in financial year 2007. The increase in loss is the result of a noticeable decline of milestone payments from partners, accompanied by a lower gross margin. At the same time, the establishment of the company's own sales and marketing activities, as well as the increase in R&D costs is causing a rise in operational costs.

The decisive factors for achieving the projected financial targets are the increase in Eligard® sales, the successful market launch of Polyphenon® E Ointment in the US, the approval and start of marketing of Oracea™ as well as partnerships.

According to the sales and results forecast, cash reserves are expected to be at 25 million €.

MediGene's management anticipates an improved EBIT result for 2008. This forecast assumes that product sales again will rise and that there will be a project status-related decrease in research and development costs.

The company believes that sufficient capital is available to meet current and foreseeable financial obligations until the end of the business year 2008.

Total number of employees to increase in financial year 2007

The establishment of the sales and marketing organization in selected European countries will raise the number of employees by approx. 30. In order to further enhance the professional and social skills of our staff, we will continue to offer in-house and external training. The group expects to have 200 employees on its payroll at the end of 2007.

Investment and expenditure for research & development

No major investments in property, plant and equipment (>100 T€) are planned for 2007 and 2008. The acquisition of new licenses to bolster the dermatology portfolio is one strategic goal, yet at present no investments in this area are imminent. Research and development remains the largest cost pool.

Future procurement

As regards procurement, MediGene does not expect developments in 2007 to deviate from the previous year. In 2007, MediGene will purchase the drug Eligard® from QLT, Inc. for the European market. Polyphenon® E Ointment for both the US and European markets will be sourced from contract manufacturers in Japan and Germany. Oracea™ will be purchased from CollaGenex Pharmaceuticals, Inc. in the US.

Dividends

Given the current income position, MediGene will not distribute any dividends. MediGene pursues the concept of residual dividend distribution: It 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. Therefore, no distribution of dividends is to be expected for the time being.

Future legal corporate structure and organization/ administration

No changes in the legal corporate structure are planned.

Environmental protection exceeds the required level

The measures already implemented will continue to be pursued. MediGene will continue to provide environmental protection beyond the level required by the authorities.

Executive Board

Martinsried, March 1, 2007
MediGene AG

Dr Peter Heinrich
Chief Executive Officer

Alexander Dexne
Chief Financial Officer

Dr Ulrich Delvos
Chief Operating Officer

Consolidated income statements

of MediGene AG for the periods from January 1 to December 31, 2006 und 2005

In T€		Notes No.	2006	2005
1.	Product sales		**30,549**	19,555
2.	Other operating income		**675**	127
3.	**Total revenues**	(30)	**31,224**	**19,682**
4.	Cost of sales	(31)	**10,669**	9,077
5.	**Gross profit**		**20,555**	**10,605**
6.	Selling expenses	(32)	**1,504**	1,100
7.	General and administrative expenses	(33)	**6,135**	5,023
8.	Research and development expenses	(34)	**21,275**	15,997
9.	**Operating loss**		**-8,359**	**-11,515**
10.	Interest income	(35)	**1,298**	827
11.	Interest expenditures	(35)	**-11**	-149
12.	Expenses from securities	(35)	**0**	-1,512
13.	Foreign exchange gains/losses	(35)	**-534**	305
14.	**Result before income tax**		**-7,606**	**-12,044**
15.	Tax	(52)	**715**	0
16.	**Net loss from continued operations**		**-6,891**	**-12,044**
17.	Result from discontinued operations		**0**	-1
18.	**Net loss**		**-6,891**	**-12,045**
	Result from continued operations (»actual« and »fully diluted«)	(40)	**-0.31**	-0.65
	Result including discontinued operations (»actual« and »fully diluted«)	(40)	**-0.31**	-0.65
	Weighted average number of shares outstanding		**22,410,901**	**18,560,027**

Consolidated balance sheet

of MediGene AG as of December 31, 2006 und 2005

Assets

In T€	Notes No.	Dec. 31, 2006	Dec. 31, 2005
A. Non-current assets			
I. Property, plant & equipment	(41)	1,391	1,137
II. Intangible assets	(42)	50,845	6,543
III. Goodwill	(38)	13,041	9,226
IV. Investments	(43)	1,501	1,258
V. Other assets		97	97
Total non-current assets		66,875	18,261
B. Current assets			
I. Inventories		401	0
II. Accounts receivable	(44)	769	2
III. Cash and cash equivalents	(45)	52,498	37,625
IV. Other current assets	(44)	3,593	1,174
Total current assets		57,261	38,801
Total assets		124,136	57,062

Liabilities and shareholders' equity

In T€	Anhang	Dec. 31, 2006	Dec. 31, 2005
A. Shareholders' equity			
I. Share capital	(46)	28,654	18,766
Number of shares issued and outstanding			
Dec. 31, 2005: 18,766,172			
Dec. 31, 2006: 28,653,630			
II. Additional paid-in capital	(47)	311,627	258,776
III. Accumulated deficit	(48)	-232,601	-225,710
IV. Other reserves	(49)	832	-55
Total shareholders' equity		108,512	51,777
B. Non-current liabilities			
I. Financial liabilities	(50)	98	115
II. Pension accrual	(51)	81	97
III. Other long-term liabilties		132	100
IV. Deferred taxes	(52)	955	0
Total non-current liabilities		1,266	312
C. Current liabilities			
I. Current portion of capital lease obligation		0	118
II. Trade accounts payable	(53)	2,638	845
III. Embedded financial instruments	(54)	101	0
IV. Other current liabilties	(57)	9,931	3,343
V. Current financial liabilities	(55)	610	0
VI. Accruals	(56)	780	0
VII. Deferred income		298	667
Total current liabilties		14,358	4,973
Total liabilities and shareholders' equity		124,136	57,062

Consolidated cash flow statements

of MediGene AG for the periods from January 1 to December 31, 2006 und 2005

In T€	2006	2005
Cash flow from operating activities		
Net loss for the period (before taxes)	**-7,606**	-12,045
Adjustments to reconcile net loss to cash used in operating activities:		
Stockbased compensations options/bonds	**472**	501
Other non-cash income	**0**	-1,333
Depreciation	**1,068**	1,348
Gains/losses on sales of property, plant & equipment	**4**	-18
Unrealized losses from investments	**0**	1,512
Interest income	**-1,298**	-828
Interest expenses	**11**	149
Changes in:		
Inventories	**-401**	0
Other assets and prepaid expenses	**-2,725**	2,588
Trade accounts payable	**1,612**	227
Accruals	**780**	0
Other liabilities and deferred income	**5,530**	-3,318
Net cash used by operating activities	**-2,553**	**-11,217**
Cash flow from investing activities		
Purchases of property, plant & equipment	**-4,281**	-452
Sales of property, plant & equipment	**1**	39
Net cash from acquisition of Avidex Ltd.	**6,276**	0
Net cash from investing activities	**1,996**	**-413**
Cash flow from financing activities		
Proceeds from capital increases	**15,652**	0
Expenses capital increase	**-1,270**	0
Proceeds from stock options and convertible bonds	**22**	260
Proceeds from stock options and bonds	**0**	0
Repayments of/proceeds from loans	**-198**	68
Interest received	**1,225**	842
Interest paid	**-2**	-62
Principal payments under finance lease obligations	**-118**	-267
Net cash from financing activities	**15,311**	**841**
Increase/Decrease in cash and cash equivalents	**-14,754**	**-10,789**
Cash and cash equivalents at beginning of period	**37,625**	48,460
Currency translation	**119**	-46
Cash and cash equivalents at end of period	**52,498**	**37,625**

Consolidated changes in shareholders' equity

of MediGene AG for the periods from January 1 to December 31, 2006 und 2005

	Shares	Share capital	Capital reserves	Accumulated losses	Other reserves	Total share-holders' equity
	No.	T€	T€	T€	T€	T€
Balance Jan. 1, 2006	**18,766,172**	**18,766**	**258,776**	**-225,710**	**-55**	**51,777**
Net loss for the year				-6,891		**-6,891**
Unrealized profit from QLT shares					243	**243**
Currency translation adjustments					644	**644**
Comprehensive income						**-6,004**
Capital increase	9,882,878	9,883	53,631			**63,514**
Capital increase expenses			-1,269			**-1,269**
Exercised options/bonds	4,580	5	17			**22**
Expenses on new options/bonds			472			**472**
Balance Dec. 31, 2006	**28,653,630**	**28,654**	**311,627**	**-232,601**	**832**	**108,512**
Balance Jan. 1, 2005	**18,522,684**	**18,523**	**256,882**	**-213,665**	**-28**	**61,712**
Net loss for the year				-12,045		**-12,045**
Unrealized profit from QLT shares					8	**8**
Currency translation adjustments					-35	**-35**
Comprehensive income						**-12,072**
Capital increase	0	0	0			**0**
Capital increase expenses			0			**0**
Exercised options/bonds	243,488	243	1,393			**1,636**
Expenses on new options/bonds			501			**501**
Balance Dec. 31, 2005	**18,766,172**	**18,766**	**258,776**	**-225,710**	**-55**	**51,777**

Notes to the consolidated financial statements

of MediGene AG, Martinsried / Planegg for the financial year 2006

A) Description of business activity and corporate information

The MediGene Group (also »MediGene«) is a biopharmaceuticals company which develops drugs to combat cancer and autoimmune diseases. In other words, the group concentrates on indications of great medical necessity and substantial commercial interest. R&D activities are focused on cancer and autoimmune diseases. The company conducts its own sales and marketing activities in the field of dermatology. The group's main activities are described in the Notes under (I) »Segment Reporting.«

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

In addition to the parent company, MediGene AG in Martinsried, the group (MediGene Group) includes two subsidiaries, MediGene, Inc., San Diego, USA, and Avidex Limited, Abingdon, Oxfordshire, United Kingdom (hereinafter also referred to as »Avidex Ltd.«). The subsidiaries were acquired in 2001 (MediGene, Inc., USA) and 2006 (Avidex Ltd, UK) respectively.

B) Accounting principles

(1) Basic principles of preparation of consolidated financial statements

The consolidated financial statements have basically been prepared on an historical cost basis, except for available-for-sale investments, derivative financial instruments and intangible assets, which were measured at fair value. Furthermore, the value of goodwill is examined by applying the fair values of the underlying cash generating units (CGUs). The consolidated financial statements are presented in euros and are also available in German language. All values are rounded to the nearest thousand (T€) unless otherwise indicated.

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

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

These consolidated financial statements were prepared in compliance with the International Financial Reporting Standards that are mandatory in the EU. The Executive Board of the company believes that these consolidated financial statements reflect all of the adjustments that are necessary for the portrayal of the assets, financial and income position at the end of the periods that ended on December 31, 2005 and 2006. These consolidated financial statements of the MediGene Group also satisfy the requirements stipulated in Section 315 a HGB.

The consolidated financial statements for the financial period from January 1, 2006 to December 31, 2006 were approved for publication by the Executive Board on March 1, 2007.

(3) Changes in accounting and reporting policies

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

Application of new and revised accounting standards and interpretations

The following new and revised International Financial Reporting Standards and Interpretations (IFRIC) were adopted in the consolidated financial statements for the financial year 2006:

Amendment to IAS 19 and IAS 1	Actuarial Gains and Losses, Intragroup Plans and Disclosures
Amendment to IAS 21	Net Investment in a Foreign Operation
Amendment to IAS 39	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
Amendment to IAS 39	Fair Value Option
Amendment to IAS 39 and IFRS 4	Financial Guarantees
IFRS 6	Exploration for and Evaluation of Mineral Resources, and amendment to IFRS 1
IFRIC 4	Determining whether an Arrangement Contains a Lease
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

IFRS 8, IFRIC 10, IFRIC 11 and IFRIC 12 have not yet been implemented by EU legislation.

The revised standards replace the previous versions of these standards and apply to those financial years that commenced on or after January 1, 2006. The application of the new and revised standards affects MediGene AG's consolidated financial statements for 2006 as follows:

IAS 19 (»Employee Benefits«) and
IAS 1 (»Presentation of Financial Statements«)
The group adopted the amendments to IAS 19 as of January 1, 2006. This rule concerns the balance sheet treatment of assets and liabilities arising from defined benefit plans. Previously, actuarial gains and losses going beyond the corridor were distributed, with effect on net income, over the remaining years of service of the employees concerned. The amendment now adopted allows not only the distribution of actuarial gains and losses with effect on net income, but also the immediate but earnings-neutral recording of all actuarial gains and losses in the year in which they arise. This option can be exercised only uniformly for all defined benefit plans and all actuarial gains and losses. These are recorded outside of the income statement in a separate statement of recognized income and expenses. The application of this rule leads to additional information in the Notes. MediGene does not need to use this option and is continuing to apply the same corridor method as before.

IAS 21 (»The Effects of Changes in Foreign Exchange Rates«)
The group adopted the amendments to IAS 21 as of January 1, 2006. IAS 21 stipulates that exchange rate differences arising from monetary items that constitute part of net investment in a foreign operation must be recorded under equity without affecting net income in the consolidated financial statements. These regulations now apply regardless of whether a monetary item that constitutes part of net investment in a foreign operation is the result of a transaction with the parent company or with another subsidiary. This regulation is applied irrespective of the currency in which the monetary item is denominated and of the group company that engages in transactions with the foreign part-operation. The application of the amended standards has no significant impact on the consolidated financial statements for 2005 and 2006.

IAS 39 (»Financial Instruments: Recognition and Measurement«)
The supplement to IAS 39 stipulates that the foreign currency risk of an expected but highly probable intragroup transaction may be designated as an underlying transaction in the consolidated financial statements. The prerequisites of this are that the transaction is denominated in a currency other than the functional currency of the undertaking that concludes the transaction and that the foreign currency risk will affect the consolidated financial statements. If the hedging of an expected intragroup transaction qualifies for balance sheet reporting as a hedging relationship, any income that was recorded immediately in equity in accounting regulations for hedging transactions must be reposted to the income statement in the same periods in which the hedged transaction affects the group's income statement. In the MediGene Group to date, no intragroup transactions qualifying as underlying transactions have been concluded and no intragroup transactions have been hedged. As a result, the application of the amended standard had no impact on the consolidated financial statements for 2005 and 2006.

IAS 39 (»Financial Instruments: Recognition and Measurement«)
In IAS 39, the IASB has restricted the use of the option to measure financial assets or financial liabilities at fair value with effect on net income. The amendment to the fair value option restricts the use of the option to (a) the elimination and diminution of accounting anomalies or to (b) a group of financial assets and/or financial liabilities which are handled on a fair value basis and whose respective income development is measured appropriately in agreement with the set management or investment strategy. The amendment to the fair value option also stipulates that if a contract contains an embedded derivative, a company can basically apply the fair value option to the entire combined contract, thereby circumventing the obligation to detach the embedded derivative. In such cases, the foregoing conditions (a) and (b) are irrelevant. As the group does not apply the fair value option, this amendment to IAS 39 has no effect on the consolidated financial statements.

IAS 39 (»Financial Instruments: Recognition and Measurement«) and IFRS 4 (»Insurance Contracts«)
The amendment to IAS 39 requires the balance sheet treatment of financial guarantees to be regulated by IAS 39 and no longer by IFRS 4. Financial guarantees that are not insurance contracts must be recognized initially at fair value and in the subsequent years at the higher of the amount determined in accordance with IAS 37 »Provisions, Contingent Liabilities and Contingent Assets« and the amount initially recognized, less cumulative amortization recognized with effect on net income in accordance with IAS 18 »Revenue.« The application of this amendment had no impact on the consolidated financial statements.

IFRS 6 (»Exploration for and Evaluation of Mineral Resources«)
This standard is aimed at all companies involved in the exploration for and evaluation of mineral resources. Accordingly, this standard is not relevant for MediGene. The application of the standard as of January 1, 2006 therefore has no effect on the consolidated financial statements.

IFRIC 4 (»Determining whether an Arrangement Contains a Lease«)
The group adopted IFRIC 4 as of January 1, 2006. IFRIC 4 relates to contractual relationships which must not legally be classified as lease arrangements. Such contracts involve the right to use an asset being transferred against a single payment or a series of payments. The interpretation stipulates that any arrangement which satisfies the following criteria is or contains a lease and must be treated in the accounts as a lease in accordance with IAS 17 »Leases.« This change in accounting policy did not have a significant impact on the assets, financial and income position of the group as per December 31, 2006 and December 31, 2005.

IFRIC 5 (»Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds«)
The group adopted IFRIC 5 as of January 1, 2006. This interpretation establishes the accounting treatment of shares in funds in which companies obliged to decommission accumulate assets either alone or together with other companies so obliged in order to finance resultant expenses incurred later. The application of IFRIC 5 had no impact on the consolidated financial statements for 2005 and 2006.

IFRIC 6 (»Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment«)
The group adopted IFRIC 6 as of January 1, 2006. This interpretation established the recognition date for liabilities arising in accordance with IAS 37 for the disposal of Waste Electrical and Electronic Equipment. The application of IFRIC 6 has not led to the formation of provisions in the consolidated financial statements in 2005 and 2006.

Early application of new standards and interpretations
MediGene waives the premature application of the following new and amended standards und interpretations:

Standard/ Interpretation	Title	Coming into Effect
IFRS 7	Financial Instruments: Disclosures	January 1, 2007
IAS 1	Amendment – Additional disclosure requirements on capital	January 1, 2007
IFRS 8	Operating Segments	January 1, 2009
IFRIC 8	Scope of IFRS 2	May 1, 2006
IFRIC 9	Reassessment of Embedded Derivatives	June 1, 2006
IFRIC 10	Interim Financial Reporting and Impairment	November 1, 2006
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	March 1, 2007
IFRIC 12	Service Concession Arrangements	January 1, 2007

IFRS 8, IFRIC 10, IFRIC 11 and IFRIC 12 have not yet been implemented by EU legislation.

IFRS 7 (»Financial Instruments: Disclosures«)
The premature application of IFRS 7 as of January 1, 2006 would have made further information in the Notes necessary. It would, however, have had no impact on the presentation of the group's assets and income position for the periods ending December 31, 2006 and 2005.

IAS 1 (»Presentation of Financial Statements«)
The premature application of IAS 1 as of January 1, 2006 would have made further information in the Notes necessary. It would, however, have had no impact on the presentation of the group's assets and income position for the periods ending December 31, 2006 and 2005.

IFRIC 8 (»Scope of IFRS 2«)
IFRIC 8 regulates the application of IFRS 2 to any arrangements where equity instruments issued by the group for a consideration appear to be less than fair value. As equity instruments in the group are issued only to employees and Executive Board members within the scope of an employee stock option scheme, the first-time application of IFRIC 8 as of January 1, 2006 had no impact on the presentation of the assets and income position in the consolidated financial statements for 2006 and 2005.

IFRIC 9 (»Reassessment of Embedded Derivatives«)
IFRIC 9 was issued in March 2006 and becomes effective for financial years beginning on or after June 1, 2006. This interpretation prescribes that the assessment of whether an embedded derivative is to be separated from the host contract and reported as a derivative is to be made on the date on which a company first becomes a contracting party, and that a later reassessment may be made only if a change in the terms of the contract gives rise to a significant change in cash flows. The effects of the application of this interpretation are under review. The group presently does not expect the application of this interpretation to the financial year 2007 to have any effects on the consolidated financial statements.

(4) Significant accounting judgments, estimates and assumptions

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

Judgments
In the process of applying the group's accounting policies, the management has made the following judgments, which have the most significant impact on the amounts recognized in the financial statements.

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

Deferred tax assets from loss carryforwards
The recognition of deferred tax assets requires that certain assumptions which lie within the management's judgment are made. These concern, above all, the assessment of the conditions and the time period in which deferred tax assets can be recovered by utilizing existing loss carryforwards.

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

Impairment of goodwill
The group determines whether goodwill is impaired at least once a year. This requires an estimation of the »value in use« of the underlying cash generating units to which the goodwill is allocated. To estimate the value in use amount, the management must make an estimate of the expected future cash flows from the individual cash generating units, assess the chances of the underlying projects being developed successfully, and also choose a suitable discount rate. In view of the length of the planning periods of up to 17 years, the assumptions and forecasts relating to them involve significant uncertainties. The carrying amount of goodwill at December 31, 2006, which came to 13,041 T€ (2005: 9,226 T€) is based on three cash generating units, which in turn are based on one or more development projects (cf. Notes to the Consolidated Financial Statements (38)).

Impairment of intangible assets
As per December 31, 2006 the group had intangible assets amounting to 50,845 T€ at its disposal, of which 9,884 T€ was accounted for by capitalized licenses and 40,961 T€ by research and development projects arising from the Avidex acquisition. As there is no active market for these projects, the cost model is used for subsequent evaluation. Furthermore, the projects are not yet ready for utilization, which means that they have to be tested for impairment on an annual basis. The cash flow model used for this purpose is the same one that was used to examine the goodwill resulting from Avidex's projects.

Capitalization of development costs
Development costs must be capitalized if the prerequisites for this in accordance with IAS 38 are satisfied. This requires a large number of estimates and assumptions by the management. In the period ending on December 31, 2006, research and development costs amounting to 21,275 T€ were recorded with effect on net income. No development costs were capitalized.

Fair value
In principle, fair value is determined on the basis of market prices. The fair value of assets and payables without identifiable market prices is measured by using appropriate methods. These measurements are usually based on budget calculations and underlying estimates by the management. The long-ranging scope of the planning periods subjects such estimates to a significant degree of uncertainty. MediGene has valued financial assets, derivative financial instruments and the intangible assets identified within the acquisition of Avidex at fair value.

Defined benefit plans
The cost of defined pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, estimates of this kind are subject to significant uncertainties.

(5) Consolidation of subsidiaries

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

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

Subsidiaries

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

Consolidated entity per Dec. 31, 2006	MediGene, Inc.	Avidex Ltd.
Head office	San Diego, USA	Abingdon/Oxfordshire, United Kingdom
Percentage stake %	100	100
Equity in T€	-534	4,892
Net loss 2006 in T€	-2,879	-11,459

(6) Functional currency/Foreign currency translation

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

Functional currency and reporting currency

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

Transactions and balances

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

Group companies

Each company within the group determines its own functional currency. The items in a company's financial statements are evaluated using its functional currency. In the consolidation of the foreign subsidiaries MediGene, Inc. and Avidex Ltd., the balance sheet items are basically translated at the rates prevailing on the closing date. Goodwill arising from the acquisition of Avidex Ltd., and fair-value-based adjustments in the carrying amounts of Avidex Ltd.'s assets and liabilities, are reported in the functional currency of the foreign company in question and translated into euros at the rate prevailing on the closing date. Goodwill arising from the acquisition of MediGene, Inc. is recognized as an asset of MediGene AG and therefore is not subject to currency translation. Any exchange rate differences are recorded as a separate component of equity.

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

The following exchange rates were used in 2006 and as per the closing date December 31, 2006:

Foreign currency exchange rates 2006

	Rate as at closing date		Average rate for the year
1 € in US$			
Dec. 31, 2006	**1.3182**	**2006**	**1.2557**
Dec. 31, 2005	1.1825	2005	1.2448
1 € in GBP			
Dec. 31, 2006	**0.6713**	**2006**	**0.6819**
Dec. 31, 2005	0.6863	2005	0.6840

Source: Dresdner Bank AG, Refrence Exchange Rates

(7) Property, plant and equipment

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

Software	3–4 years
Technical equipment and laboratory facilities	3–8 years
Improvements to leased properties	8–10 years

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

For details on the development of fixed assets, please see the statement of fixed assets (page 88 f.).

(8) Business combinations and goodwill

Acquisitions, or business combinations, are treated in the accounts in accordance with IFRS 3 »Business Combinations.« This means that the acquired companies' results are included in the consolidated financial statements as from the date of their acquisition. The capital consolidation is carried out using the acquisition accounting method. The excess of the cost of the business combination over the group's interest in the net fair value of the acquiree's assets is reported as goodwill.

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

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

Goodwill is subjected to an impairment test on an annual basis or where there is an indication of impairment in the underlying cash generating units. If the acquisition costs are lower than the net fair value of the acquiree's assets, the difference is recorded directly in the income statement. As acquired identifiable assets are reported in the accounts at fair value, temporary differences arise when the carrying amount is increased to the fair value but the tax value still complies with the previous owner's acquisition costs. Under IAS 12, this leads to a latent tax liability which influences goodwill.

(9) Intangible assets

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

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

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

Capitalization of research and development costs

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

Research and development projects acquired through business combinations

As provided for by IFRS 3, all of the identifiable research and development projects arising from the acquisition of Avidex Ltd. were capitalized. The capitalization was carried out in accordance with IFRS 3.45 at fair value as of the acquisition date.

Accounting policies for intangible assets

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

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

Details regarding the development of intangible assets can be found in the statement of fixed assets (page 88 f.).

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

Assets with a finite useful life

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

Assets with an indefinite useful life

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

Goodwill

Goodwill is reviewed for impairment at least once a year. An impairment test is conducted when events or circumstances indicate that the book value could be diminished. If the test reveals impairment, an amortization must be carried out. The impairment loss is determined by ascertaining the realizable value of the CGU. If the CGU's book value exceeds the fair value, the allocated goodwill and then the intangible asset are written off at this value. The calculation of the realizable value is based on forecast cash flows derived from the management's plans for this unit. The planning period in question encompasses the development and approval phase, the period following the market launch, for which patent terms of between 10 and 20 years are assumed, and the achievement of peak sales figures 5 years after this point. Then the current book value is compared with the result of the project evaluation. The goodwill is allocated to the group's identified CGUs by country of operation and business unit.

Intangible assets not ready for use

Drug candidates that have not yet been granted market authorization are not yet utilizable. Accordingly, intangible assets with underlying drug candidates are tested for impairment annually. The intangible assets arising from the acquisition of Avidex Ltd. are subjected to an impairment test at least once a year. The impairment loss is determined by ascertaining the realizable value of this immaterial asset. This is done by estimating the future cash flows and discounting it on the present value with a suitable factor. Possible causes of a diminution in the value of a CGU could lie in preclinical and clinical research results or a change in the competitive situation. The purchase price allocation in accordance with IFRS 3 carried out in the course of the acquisition of Avidex Ltd. required the management to make a large number of assumptions and can therefore be regarded merely as provisional. For this reason, the annual impairment test will be conducted for the first time in the financial year 2007.

(11) Financial assets

Financial assets are classified in the following categories:
- Financial assets at fair value through profit or loss
- Held-to-maturity investments
- Loans and receivables
- Available-for-sale financial assets

The classification depends on the purpose for which the financial assets were acquired. The management determines the classification of its financial assets at initial recognition and reevaluates this designation at every closing date.

a. Financial assets at fair value through profit and loss
comprise the financial assets held for trade that are classified in this category at initial recognition. This includes all derivative and embedded derivative financial instruments.

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

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

d. Available-for-sale financial assets
are non-derivative financial assets that are designated as available for sale or are not classified in any of the three preceding categories. They are classified as long-term assets if the management has no intention of selling them within 12 months of the balance sheet date. After their initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity in the net unrealized gains reserve. When investments are disposed of, the cumulative gain or loss previously recorded in equity is recognized in the income statement. The shares in the company QLT, Inc., Canada, are allocated to this category.

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

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

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

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

At every balance sheet date, the group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classed as available for sale, a significant or prolonged decline in the fair value of the security below its acquisition cost is considered in determining whether and to what extent the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses on equity instruments that are recognized in the income statement are not reversed through the income statement.

(12) Inventories

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

(13) Cash and cash equivalents

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

(14) Equity

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

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

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

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

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

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

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

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

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

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

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

(18) Pension accruals
Pension accruals are reported in the accounts in accordance with IAS 19 »Employee Benefits.« In the group there are various pension schemes. The group has both defined benefit and defined contribution plans.

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

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

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

(19) Post-employment benefit plans
Post-employment benefits are paid when an employee is dismissed before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognizes post-employment benefits when it demonstrably has to pay these benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

(20) Deferred taxes
Deferred taxes, in accordance with IAS 12 »Income Taxes,« are recognized using the liability method for all time differences between the tax base of the assets/liabilities and their book values in the IFRS financial statements. Deferred taxes are valued using the tax rates (and tax regulations) that apply as of the

balance sheet date or have essentially been adopted and are expected to be legally effective when the deferred tax receivable is recognized or the deferred tax liability is settled. Identifiable assets acquired during the course of a business combination are recognized at fair value as of the acquisition date. Temporary difference arise if the book value is increased to the fair value but, at the same time, the tax value corresponds to the previous owner's acquisition costs. This, according to IAS 12, leads to a deferred tax liability that influences goodwill.

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

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

Deferred taxes relating to items recorded directly in equity are recorded in equity.

Deferred tax assets and deferred tax liabilities are measured using the tax rates that are expected to apply to the period in which the asset is realized or the liability is settled, based on tax rates and tax laws, particularly on country-specific ones that have been enacted or substantively enacted at the balance sheet date.

(21) Leases

Lease agreements for property, plant and equipment where the group is the lessee and essentially has all of the risks and potential rewards of ownership are classified under IAS 17 »Leases« as **finance leases**. Assets arising from finance leases are capitalized on commencement of the lease at the fair value of the leased property or the present value of the minimum lease payments, whichever is lower. The lease obligations are carried as liabilities. Each lease payment is allocated between the liability and finance charges in order to achieve a constant interest rate on the finance balance outstanding. The lease obligations, net of finance charges, are included in other liabilities. The interest element of the lease payment is charged to the income statement. The property, plant and equipment held under finance leases are depreciated over the asset's estimated useful life or the lease term, whichever is shorter.

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

(22) Revenue recognition

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

Revenues from product sales and recurring license payments

Eligard® has been marketed since May 2004 in Germany as MediGene's first drug. This, accordingly, was the first time that revenues were generated from this drug's commercialization. In January 2004, MediGene had concluded a partnership for the commercialization of Eligard® with Astellas Pharma Europe Ltd. MediGene's partner handles the marketing activities in Germany and the rest of Europe. The income from product sales is recognized as soon as the product is delivered to Astellas Pharma. MediGene also receives license payments from the product sales generated by Astellas Pharma. MediGene recognizes license payments on the basis of the sales revenues posted by Astellas Pharma in each quarter.

Revenues from advance, milestone and non-recurring license payments

In accordance with IAS 18 »Revenue,« so-called »upfront« payments (non-recurring advance payments) that MediGene receives from pharmaceuticals partners on conclusion of a new contract are accrued on the liabilities side and collected proportionately when specific milestones are reached. When the upfront payment has been received the cash flow increases by the full amount of that payment, and at the same time a deferred revenue item is created. This item is reversed proportionately when a milestone is achieved and is reported in the consolidated income statement as revenue from product sales. Non-recurring license payments for which all risks and potential rewards pass to the licensee are recognized immediately.

MediGene receives milestone payments for the official acceptance of authorization applications that it has submitted, the market authorization of products by the authorities and the attainment of research and development goals that were defined as part of the cooperation agreements. In such cases no deferral

is necessary. Accordingly, these payments are collected and posted to income immediately if no further performances have been agreed.

R&D payments received from partners and other income

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

Interest income

Interest income is recorded when the interest is earned.

(23) Government grants

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

(24) Research and development costs

Research and development costs are recorded in the accounts in accordance with IAS 38 (»Intangible Assets«). Research and development costs are posted to expenses in the period in which they are incurred. The research and development costs include personnel expenses, consultancy fees, material and laboratory expenses, services, legal fees and charges and other allocated costs such as rent and electricity, as well as depreciation on laboratory equipment. Research costs are posted to expenses as soon as they are incurred.

(25) Earnings per share

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

Undiluted, or actual, earnings per share

The undiluted 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 the net profit adjusted for interest expenses and the fiscal 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 completed on commencement of the period, or on the day, when the potential ordinary shares were issued.

(26) Cash flow statement

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

(27) Financial risk management

The following paragraphs describe the MediGene group's financial risk management. From the management's point of view, no appropriate managerial measures are available to address the existing financial risks listed in the following, as a currency hedge from milestone payments would not be effective due to the unpredictability of the payment dates. The management has therefore generally refrained from engaging in any hedging activity.

Financial risk factors

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

Market risks

Foreign exchange risk

A foreign exchange risk arises when future business transactions, assets reported in the balance sheet and liabilities are denominated in a currency other than the company's functional currency. The group operates internationally and is consequently exposed to foreign exchange risk arising from changes in the exchange rate between the US dollar and the euro as well as the GBP and the euro, respectively. The foreign exchange risk concerns income in US dollars realized with the sale of Eligard® and milestone payments for Polyphenon® E Ointment from partner Bradley Pharmaceuticals. The costs incurred in purchasing the products Eligard® and Polyphenon® ointment, as well as the license payments to the licensors that result from the sale of these products, are also subject to foreign currency risks.

MediGene AG's subsidiaries use the US dollar (MediGene, Inc.) and the GBP (Avidex Ltd.) as their functional currency. This means that at group level (with the euro as functional currency), there exist foreign currency risks in respect of the subsidiaries' operating activities and their recognized assets and liabilities.

Share price risk

The group is exposed to a risk of share price changes because of its shareholding in the Canadian company QLT, Inc., as a shareholding held by the group was classified in the consolidated balance sheet as »available for sale.«

Credit risk

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

Liquidity risk

Prudent liquidity management implies the maintenance of sufficient cash and marketable securities and the ability to issue securities on the market. Under the present conditions, MediGene assumes that it is able to issue marketable securities on the market.

Cash flow and fair value interest rate risk

Although the group holds substantial interest-bearing assets, the consolidated profit and the operating cash flow are dependent only to a slight extent on changes in the market rate of interest. The fixed-interest lease obligations give rise to a fair value interest rate risk.

(28) Segment reporting/Business units

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

(29) Discontinued operations

The discontinued operations essentially comprise costs that were incurred in MediGene AG's former cardiology segment. They include costs (7 T€) that are basically attributed to maintaining patents that belonged the former subsidiary LARNAX GmbH. LARNAX GmbH was merged with its parent company, MediGene AG, in August 2005. For this reason no additional costs were incurred in 2006.

C) Changes in the reporting entity

Avidex Ltd.

On September 27, 2006 MediGene acquired 100% of the outstanding shares and the associated voting rights in Avidex Ltd. (Abingdon, Oxfordshire, United Kingdom). In return, the Avidex shareholders received a total of 8,030,618 new MediGene shares as a swap for all of the outstanding Avidex shares. In a second step, options were exercised at Avidex Ltd. The swap of the resultant Avidex Ltd. shares for 127,169 MediGene shares had not yet been completed by the closing date December 31, 2006.

The acquired company's development portfolio contains drug candidates for combating cancer and autoimmune diseases and a further technology platform for developing new drugs. The main product RhuDex®, an orally administered CD80 inhibitor, is about to undergo a clinical, explorative phase IIa study for the treatment of rheumatoid arthritis. Other drug candidates are still at the research or preclinical development stage. The technology platform with monoclonal mTCRs constitutes the basis for further new drug candidates. As a subsidiary of MediGene AG, Avidex Ltd. will continue to be based entirely in Oxford. Avidex Ltd. had 43 employees at the time of its acquisition.

The consolidation of Avidex Ltd. is being treated in accordance with IFRS 3 »Business Combinations.« The acquisition costs amount to 50,076 T€. These costs comprise the fair value of the shares (48,473 T€) and the costs incurred in the acquisition (1,603 T€). The fair value of the shares corresponds to the MediGene share's XETRA closing price (German Stock Exchange, Frankfurt) on September 27, 2006, the date when control was devolved, and constitutes the best basis for the issued shares' fair value as defined by IFRS 3.27.

Acquisition cost

In T€		2006
Shares issued at underlying current market value		48,473
Number of shares issued	8,157,787	
Underlying current market value per share (€)	5.96	
Direct cost arising for the acquisition of Avidex Ltd.		1,603
Total acquisition cost		50,076

Cash flow from acquisition

In T€	2006
Net cash acquired by Avidex Ltd.	7,879
Direct cost arising for the acquisition[1)]	-1,603
Total cash flow	**6,276**

[1)] Not including the expenses for issuance of new shares.

The purchase price allocation according to IFRS 3 presented below requires a large number of assumptions by the management and must therefore be regarded as merely provisional. The allocation of the purchase price effected upon the transfer of the voting rights on September 27, 2006 was of temporary nature and therefore advanced further as per December 31, 2006. It emerged that it is probable that the tax loss carryforwards of Avidex Ltd. can be realized in the foreseeable future, also due to the deferred tax liabilities recorded. The recognized deferred tax assets totaling 10,527 T€ were set off against the recognized deferred tax liabilities. In spite of this adjustment, purchase price allocation is still to be regarded as preliminary.

Preliminary fair values of the assets acquired[1)]

In T€	Reported at acquisition	Book value according to IFRS
Cash	7,879	**7,879**
Tangible assets	385	385
Current research and development projects	40,574	0
Intangible assets and other assets	460	460
Total assets acquired	**49,298**	**8,724**
Financial obligations due	-1,356	-1,356
Deferred taxes	-1,645	0
Identified but not reported liabilities at underlying current market value	0	0
Total liabilities	**-3,001**	**-1,356**
Underlying current market value of net assets	**46,297**	**7,368**
Goodwill from company acquisition	3,779	0
Total acquisition cost	**50,076**	**7,368**

[1)] The assets of Avidex Ltd. have been converted from GBP into Euro with the exchange rate from September 27, 2007 (1 Euro = 0.6777 GBP).

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

Income and expense of Avidex Ltd. were recorded in the profit and loss account of the group beginning with the date of initial consolidation. For the financial year 2006, the impact of the acquisition on the group's financial and income position without the effects of the consolidation can be summarized as follows:

Impact of Avidex Ltd. acquisition on income and financial position of the group

In T€	2006
Total revenues	0
Cost of sales	0
Gross profit	**0**
Selling, general and administrative expenses	1,056
Research and development expenses	1,711
Operating result (EBIT)	**-2,767**
Net loss	**-2,688**
Net cash used	
in operating activities	-2,917
in investing activities	-87
in financing activities	149
Currency translations	-7
Net cash used	**-2,862**

Had Avidex Ltd. already been included in the basis of consolidation as per January 1, 2006, group income would have been charged with -11,459 T€.

D) Notes to the consolidated income statement

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

(30) Total revenue

MediGene's revenues arise from the commercialization of the drugs Eligard® and Polyphenon® E Ointment. All revenues are generated from partnerships with Astellas Pharma Europe Ltd. (Eligard®) and Bradley Pharmaceuticals, Inc. (Polyphenon® E Ointment). Product sales and license revenues result exclusively from the sale of Eligard®. When Eligard® was granted market authorization in certain European countries, deferred income which had been formed on conclusion of the marketing agreement with Astellas was recognized in its entirety. MediGene received milestone payments totaling 19 million US$ from partner Bradley Pharmaceuticals, Inc. for Polyphenon® E Ointment. Other operating income primarily comprises government grants. Within the scope of two research grant programs, MediGene will receive grants for the EndoTAG™ technology totaling 1.8 million € over a two-year period.

Total revenue

In T€	2006	2005	Change
Product revenues and royalties	11,724	10,794	9%
Milestone and upfront payments	18,825	8,761	115%
Product sales	30,549	19,555	56%
Research grants	518	0	–
Other income	157	127	24%
Total	31,224	19,682	59%

(31) Cost of sales

Cost of sales primarily comprises the purchasing costs for Eligard® and royalties on sales revenues paid to QLT, Inc. In addition, costs also include the forming of a provision for a clinical trial with Polyphenon® E Ointment still to be conducted. Implementation of this trial was one of the requirements of the US authority FDA for authorization of the ointment in the United States. A milestone payment to licenser Epitome (Canada) fell due upon the granting of authorization for Polyphenon® E Ointment in the United States.

Cost of sales

In T€	2006	2005	Change
Milestones	1,174	846	39%
Royalties	3,956	2,026	95%
Cost of goods sold	5,539	6,205	-11%
Total	10,669	9,077	18%

(32) Selling expenses

Selling expenses consist entirely of business development expenditure. This comprises personnel expenses, consulting fees, market studies, materials and other service expense. There were no sales activities for products with market authorization in the reporting period; however, they are scheduled for the next financial year.

Selling expenses

In T€	2006	2005	Change
Labor expenses	746	536	39%
Consultancy	309	243	27%
Office rent and utilities	75	47	60%
Cost of material and services	23	13	77%
Depreciation	5	12	-58%
Other	346	249	39%
Total	1,504	1,100	37%

(33) General and administrative expenses

General and administrative expenses are composed as follows:

General and administrative expenses

In T€	2006	2005	Change
Labor expenses	3,092	2,708	14%
Consultancy	1,169	847	38%
Office rent and utilities	306	299	2%
Travel expenses	256	194	32%
Depreciation	88	95	-7%
Other	1,224	880	39%
Total	6,135	5,023	22%

The increase in general and administrative expenses results from the expense for consulting and services used for MediGene's activities in Mergers & Acquisitions and the initial consolidation of Avidex Ltd. since late September 2006.

(34) Research and development costs

Research and development costs comprise the following items:

Research and development costs

In T€	2006	2005	Change
Labor expenses	7,963	6,687	19%
Office rent and utilities	1,038	853	22%
Laboratory material costs	685	397	73%
Third party expenses	7,360	4,412	67%
Depreciation	975	1,241	-21%
Other	3,254	2,407	35%
Total	21,275	15,997	33%

R&D costs increased due to the acquisition of Avidex Ltd. and the progress and expansion of the clinical program for EndoTAG™-1. Research activities for the application of EndoTAG™ technology in the treatment of non-cancer-related diseases were expanded. The costs thereby incurred will be reimbursed by two government grant programs up to an amount of 1.8 million € within the next two years. MediGene did not capitalize any development costs during the reporting period, as management did not regard all IAS 38 requirements as fulfilled.

(35) Financial result

Interest income was generated through the interest on available cash deposits in the form of call money. Interest expense was incurred mainly by the interest on convertible bonds outstanding and by finance leases. All interest payments are expensed in accordance with IAS 23.

The contract concluded with Astellas Pharma Europe Ltd. for the marketing of Eligard® includes an embedded derivate, as the contract is transacted in US dollars and not in the functional currency of either contracting party. As per the closing date December 31, 2006, losses from this financial instrument totaling 101 T€ were realized.

Foreign exchange losses arose from the conversion of milestone payments from US dollars to euros. In the expired financial year, MediGene received milestone payments from marketing partners Astellas Pharma and Bradley Pharmaceuticals.

Interest expense includes finance lease interest totaling 3 T€ (2005: 17 T€).

Financial result

In T€	2006	2005	Change
Interest income	1,298	827	57%
Interest expenses	-11	-149	-93%
Sub-total	1,287	678	90%
Expense/income from securities	0	-1,512	–
Losses from embedded derivatives	-101	0	–
Foreign currency gains/losses	-433	305	>-200%
Total	753	-529	>200%

(36) Personnel expenses

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

Personnel expenses

In T€	2006	2005	Change
Salaries and wages	9,512	7,776	22%
Social security costs	1,374	1,090	26%
Pension costs			
Defined contributions plans	80	160	-50%
Defined benefit plans	69	101	-30%
Stockoptions granted to directors and employees	472	501	-6%
Other	294	303	-4%
Total	11,801	9,931	19%

Personnel expenses by segment

In T€	2006	2005	Change
Specialty Pharma	1,423	1,984	-28%
Biopharma	6,608	4,708	40%
Other	3,770	3,239	16%
Total	11,801	9,931	19%

Employees by funktion (as at Dec.31)

	2006	2005	Change
Business development and administration	41	34	21%
Research and development	130	80	63%
Total	171	114	50%

As per the end of 2006, the number of MediGene's employees totaled 171, comprising 123 in Martinsried (2005: 107 employees), 6 at MediGene, Inc. in the US (2005: 7 employees), and 42 at Avidex Ltd. in the UK. In 2006 the Group had on average 121 employees, including 6 at MediGene, Inc. and 10 at Avidex Ltd. proportionally to the consolidation starting September 27, 2006. For the group as a whole, this constitutes a 15% increase, as compared to a staff of 105 in the previous year.

(37) Depreciation of property, plant and equipment

In compliance with the cost of sales method, the amortization of intangible assets and depreciation of property, plant, and equipment are not reported separately in the income statement; instead they are allocated to the general selling and administrative expenses and/or research and development costs. Losses totaling 4 T€ arose from the sale of fixed assets.

Depreciation of fixed assets

In T€	2006	2005	Change
Fixed assets	544	698	-22%
Intangible assets	452	483	-6%
Capital lease	72	167	-57%
Total	1,068	1,348	-21%

Regular depreciation of intangible assets refers to the patents and licenses taken over from the former Munich Biotech AG in August 2004.

(38) Amortization of goodwill

As per the closing date, goodwill increased from 9,226 T€ to 13,041 T€ due to the acquisition of Avidex Ltd. Goodwill is based on three cash generating units (CGUs) consisting of the following development projects and technologies:

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

The proportionate book value of goodwill is allocated to the respective CGUs as follows:

Book value of goodwill

In T€	Avidex Ltd.				MediGene, Inc.	
	CGU1		CGU2		CGU3	
	2006	2005	2006	2005	2006	2005
Book value of goodwill	2,713	–	1,102	–	9,226	9,226

Avidex Ltd.

Goodwill (3,815 T€) arising from CGUs RhuDex, (CGU 1) and mTCR technology (CGU 2) – plus their development projects – results from the acquisition of Avidex Ltd. and was initially recognized in the period ending September 30, 2006. The book value of goodwill allocated to CGUs 1 and 2 is carried in GBP and translated into euros at the rate prevailing as of the closing date.

This goodwill is based on synergy effects with MediGene's existing preclinical and clinical development business units and regulatory affairs. In addition, an increase in the number of indications for RhuDex, and additional, previously unconsidered, application potentials for the mTCR products and platform contribute to this position.Due to the preliminary nature of the purchase price allocation, no annual impairment test according to IAS 36.84 was carried out. As per December 31, 2006, there had been no changes of the underlying assumptions and parameters. As no indications of impairment existed as per the closing date, the goodwill in question was not subjected to impairment testing. The first annual impairment test is scheduled for financial year 2007.

MediGene, Inc.

A goodwill of 9,226 T€ results from the acquisition of MediGene, Inc. in 2001. This goodwill is allocated to the Biopharma segment; it is based on the CGU which comprises the G207 and NV1020 development projects of MediGene, Inc. An impairment test, to be carried out at least annually, resulted in an overall reduction the project's value; nevertheless, the calculated fair value of the underlying CGU 3 of both projects exceeded the book value of the CGU that contains goodwill. The goodwill associated with CGU 3 is accounted for in euro.

Calculation of the CGU value was based on forecast discounted cash flows derived from the management's plan for this unit. The planning period is 16 and 17 years respectively. The valuation assumes that patent terms are sufficiently long and that peak sales figures are achieved five years after market launch. Management has made several assumptions for the basic scenario. Weighted average growth rates are based on the sales development projections for newly introduced products that are customary within the industry. Management has determined the budgeted gross margin (93%) based on past developments and on forecasts of future market development. The probability of successful commercialization is 37.5% and is based on customary averages (source: Scrip, July 2004). The discount rate is recognized at 20.4% and incorporates specific risks, such as the probability of success, in addition to the estimated cost of capital. Market growth is estimated at 1% (relevant market for NV1020) and 0.5% (relevant market for G207). Compared to the same period of the previous year, the market environment for the targeted indications has changed in such a way that lower achievable market shares of NV1020 and G207 must be assumed at present. The estimated achievable market shares decreased from 35% to 20% (NV1020) and from 33% to 20% (G207). No residual value was determined. The realizable value of G207 and NV1020 exceeds the book value of the underlying goodwill. However, the reported goodwill would have to be amortized in its entirety if the basic assumptions made should change, which is a conceivable possibility. Within this pure hypothetical assessment the following changes of individual parameters were assumed for both drug candidates, NV1020 and G207: Gross margin lowered to 85%, maximum attainable market share reduced to 15%, growth rate 0% and cost of capital increased to 20%. Unsuccessful development of either or both projects may necessitate a valuation allowance up to full amortization of goodwill. The valuation is carried out as per November 30 of each financial year.

(39) Cost of materials and services received

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

Material costs

In T€	2006	2005	Change
Cost of sales	10,669	9,077	18%
Other materials	685	397	73%
Sub-total	11,354	9,474	20%
Cost of services	7,360	4,412	67%
Total	18,714	13,886	35%

The costs of purchasing the product Eligard® are reported under acquisition cost for purchased goods. Material costs include expenses of 685 T€ (2005: 397 T€) for laboratory materials and chemicals. Services received totaling 7,360 T€ comprise the following: conducting clinical trials 3,938 T€ (2005: 2,366 T€), market authorization 166 T€ (2005: 85 T€), production services 1,684 T€ (2005: 908 T€) and preclinical development services 1,572 T€ (2005: 1,053 T€).

E) Notes on earnings per share

(40) Undiluted and diluted earnings per share

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

Undiluted earnings per share

In T€	2006	2005	Change
Net loss from continued operations	-6,891	-12,044	43%
Loss from discontinued operations	0	-1	–
Net loss inc. discontinued operations	**-6,891**	**-12,045**	**43%**
Interest convertible bonds	3	59	-95%
Result adjusted with effects from convertible bonds	**-6,888**	**-11,986**	**43%**

In thousands	2006	2005	Change
Weighted average number of shares	22,410,901	18,560,027	21%
Dilution			
Options	801,639	701,429	14%
Convertible bonds	103,529	126,772	-18%
Weighted average number of shares (without own shares) with effects from dilution	**23,316,069**	**19,388,228**	**20%**

After the balance sheet date, the issue of the remaining MediGene shares for the acquisition of Avidex Ltd. (127,169 new shares), the exercise of options (344 new shares), and a capital increase for cash conducted in February 2007 (2,062,040 new shares), increased the company's share capital from 28,653,630 shares (closing date December 31, 2006) to 30,843,183 shares (as per February 28, 2007).

The diluted net loss as of the closing date is equivalent to actual loss, as the conversion of common stock equivalents would have an anti-dilutive effect.

F) Notes on the balance sheet

ASSETS

For the detailed composition and development of property, plant and equipment see statement of fixed assets (page 88 f.).

(41) Property, plant and equipment/leasing

Property, plant and equipment/leasing

In T€	Dec. 31, 2006	Dec. 31, 2005	Change
Initial costs from finance leasing	0	325	–
Accumulated depreciation	0	-145	–
Net book value	**0**	**180**	**–**

No lease liabilities existed as per the closing date. Over the course of 2006, all leased assets were acquired and included in fixed assets.

(42) Intangible assets

The allocation of the purchase price of the acquired Avidex Ltd. resulted in the identification of intangible assets in the company's development portfolio that were recognized at a total of 40,574 T€.

These include the main product RhuDex® and other drug candidates in the research and preclinical development stages. The monoclonal T-cell receptor (mTCR) technology platform provides the basis for other new drugs. As yet, none of the products of Avidex Ltd. are ready for use; therefore they are to be tested for impairment annually. The initial impairment test will be carried out in financial 2007.

MediGene did not capitalize any internally generated intangible assets.

(43) Investments

Available-for-sale investments consist solely of interest in the Canadian partner company QLT, Inc. The appreciation in value arises from the gains of QLT, Inc. shares as per the closing date and is recorded directly in equity.

Consolidated changes in fixed assets

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

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

of MediGene AG for the periods from January 1 to December 31, 2005

In T€	Initial cost						
	Jan. 1, 2005	Changes in consolidation	Currency translation adjustments	Initial cost addition	Disposal	Market valuation	Dec. 31, 2005
Fixed assets							
Property, plant & equipment	6,556	0	63	452	-371	0	6,700
Intangible assets	7,385	0	39	0	0	0	7,424
Goodwill	11,071	0	0	0	0	0	11,071
Investments	2,761	0	0	0	0	0	2,761
Total	27,773	0	102	452	-371	0	27,956

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

	Accumulated depreciation						Net book values	
	Jan. 1, 2005	Changes in consolidation	Currency translation adjustments	Additions	Disposals	Dec. 31, 2005	Dec. 31, 2005	Dec. 31, 2004
	4,991	0	58	865	-351	**5,563**	**1,137**	1,565
	365	**0**	**33**	**483**	**0**	**881**	**6,543**	**7,020**
	1,845	**0**	**0**	**0**	**0**	**1,845**	**9,226**	**9,226**
	0	**0**	**-116**	**1,619**	**0**	**1,503**	**1,258**	**2,761**
	7,201	**0**	**-25**	**2,967**	**-351**	**9,792**	**18,164**	**20,572**

Investments

In T€	2006	2005	Change
Beginning of the year	1,258	2,761	-54%
Depreciation	0	-1,503	–
Transfer to orher reserves	243	0	–
End of year	1,501	1,258	19%

(44) Other current assets and trade receivables

Other current assets and trade receivables

In T€	Dec. 31, 2006	Dec. 31, 2005	Change
Other assets with a term <1 year			
Royalties	1,662	861	93%
VAT refund	614	2	>200%
Rent deposit	320	28	>-200%
Research grants	177	0	–
Interest	88	2	>200%
Tax refund from capital income	53	48	10%
Other	36	1	>200%
Sub-total	2,950	942	>200%
Prepaid expenses with a term <1 year			
Insurance	148	90	64%
Research and development	144	0	–
Licenses	125	55	127%
Maintenance	71	29	145%
Rent equipment/Lease	59	0	–
Conferences and travel	37	28	32%
Other	59	30	97%
Sub-total	643	232	177%
Total other current assets	3,593	1,174	>200%
Trade receivables	769	2	>200%

In the reporting year 2006, one valuation allowance on trade receivables was carried out in its entirety due to irrecoverability (89 T€). As per the closing date, the total deferred expenses were due within one year. All receivables and other assets fall due within three months.

(45) Cash and cash equivalents

Cash and cash equivalents

In T€	Dec. 31, 2006	Dec. 31, 2005	Change
Cash and cash equivalent < 3 months	52,498	37,625	40%
Total	52,498	37,625	40%

Cash and cash equivalents were invested to come to maturity in less than two months. The book value of cash and cash equivalents is equivalent to the fair value. The effective interest rate for short-term bank deposits is variable and ranged from 2.23% to 3.46% during the reporting period. The change in cash and cash equivalents is presented in the consolidated cash flow statement on page 68.

LIABILITIES

(46) Shareholders' equity

a) Ordinary shares

As per December 31, 2006, subscribed capital had increased from 18,766 T€ to 28,654 T€. It is divided up into 28,653,630 no-par-value ordinary shares of which 100% were outstanding. As per the balance sheet closing date, a total of 77.4% of the shares were tradable. A lockup was agreed for 22.6% of the shares issued with the former Avidex Ltd. shareholders. As per December 31, 2006, MediGene had not received notification according to Section 21 Securities Trade Act (WpHG).

The Executive Board was authorized by a resolution of the general shareholders' meeting of June 2, 2006, with the consent of the Supervisory Board, to increase the share capital by up to 10,310,226 € up to June 1, 2011 by issuing a total of up to 10,310,226 new bearer ordinary shares (no-par-value shares) on one or more occasions against contributions in cash or kind (Authorized Capital I/2006). The authorization can be used in partial amounts. The Executive Board is authorized, with the consent of the Supervisory Board, to lay down the further content of the share rights and the terms of the share issue.

8,030,618 new shares were issued against contributions in kind up to December 31, 2006 for the acquisition of Avidex Ltd. In an additional step, options were exercised at Avidex Ltd. The resulting interest in Avidex Ltd. was realized by MediGene AG in early 2007, again by way of an increase of capital in kind against 127,169 MediGene shares. As the shares were not recorded in the Commercial Register as per the closing date, the resulting liability of 610 T€ is reported separately as a financial liability.

Subscribed capital

	Number of shares no. and €	Share capital in Tousend in T€	Capital rerserves in T€	Total in T€
Balance Jan. 1, 2005	**18,522,684**	**18,523**	**256,882**	**275,405**
Employee stock option plan				
Value of services provided			495	495
Proceeds from shares issued	40,062	40	211	211
Employee convertible bond plan				
Value of services provided			6	6
Proceeds from shares issued	3,778	3	9	12
Capital increase				
Mandatory conversion of convertible bond	199,648	200	1,173	1,373
Balance Dec. 31, 2005	**18,766,172**	**18,766**	**258,776**	**277,452**
Employee stock option plan				
Value of services provided			463	463
Proceeds from shares issued	4,460	5	17	22
Employee stock option plan				
Value of services provided			9	9
Proceeds from shares issued	120	0	0	0
Capital increase				
Cash	1,852,260	1,852	13,000	14,852
Non-cash acquisitions	8,030,618	8,031	39,362	47,393
Balance Dec. 31, 2006	**28,653,630**	**28,654**	**311,627**	**340,281**

Total changes in stock options

	2006		2005		2004	
	Average exercise price € per share	Number	Average exercise price € per share	Number	Average exercise price € per share	Number
Beginning balance Jan. 1	**6.88**	**701,429**	**6,80**	**604,379**	**6.25**	**516,344**
Granted	10.22	118,176	12,37	146,691	7.84	112,955
Exercised	4.79	-4,460	6,26	-40,062	2.93	-21,000
Forfeited	11.39	-13,506	9,18	-9,579	7.69	-3,920
Lapsed	0	0	0	0	0	0
Ending balance Dec. 31		**801,639**		**701,429**		**604,379**
Average exercise price € per share		**7.30**		6.88		5.50

A capital increase against contributions in cash in February 2007 generated 2,062,040 new shares. In the same month, the exercise of options increased share capital by an additional 344 shares to a total of 30,843,183 (as per February 28, 2007).

b) Stock options

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

Stock options are issued to managers and employees. They are first issued within the first year of the manager's or employee's tenure at the company. The exercise price for each option corresponds to the higher of the following two prices on the day of issue: either the quoted price or the average price from the previous 60 days in the German stock exchange's XETRA trading system, plus a 20% premium. The options can be exercised upon expiration of the second year after the granting date. The

options have a contractual maturity term of 10 years. The group has no legal or de facto obligation of any kind to repurchase the options, in cash or otherwise.

146,691 stock options were issued in 2006 (2005: 112,955 stock options), with the result that 190,089 stock options from Conditional Capital XII (680,000 shares) were still available for issue as of June 2006. In accordance with the shareholders' resolution of June 2, 2006, Conditional Capital XII was reduced to 500,000 €, as it is no longer to be used in the future. The shareholders' meeting instead resolved to create a Conditional Capital XVI of 1,000,000 € for the issue of options.

The issue is restricted as follows: 340,000 options to members of the Executive Board, 50,000 options to members of the executive boards and management bodies of affiliated companies and 610,000 options to employees.

The average exercise price for the options issued in 2006 is 10.22 €, compared with 12.37 € in the previous year.

Stock options were exercised regularly during the period under review. The weighted average exercise price in financial year 2006 was 4.79 €.

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

Valuation parameters stock option plan

	2006	2005	2004
Vesting period	**2 years**	2 years	2 years
Option duration	**10 years**	10 years	10 years
Hurdle rate	**120%**	120%	120%
Volatility	**40%**	40%	106%
Risk-free interest rate	**3,84%**	3,24%	5,65%

Expected volatility was calculated on an historical basis and is founded on a floating 250-day average as at the month the option was issued. The risk-free interest rate is equivalent to the yield of a hypothetic zero-coupon bond without risk of default with a 10-year maturity and was at 3.84% (source: Deutsche Bundesbank) as at the month of issue. The fair value of the stock options issued in the financial year was 3.58 € per option (2005: 4.77 €). For 2006 expenses for share-based forms of remuneration totaling 463 T€ were reported (2005: 495 T€) and are composed as follows:

Expenses stock option plan

In T€	2006	2005
Expenses stock option plan		
2003	–	64
2004	**0**	214
2005	**315**	217
2006	**148**	–
Total expenses	**463**	**495**

As per December 31, 2006, stock options outstanding are classified according to conversion price, number of options issued, remaining term to maturity and number of options still exercisable as follows:

Conversion price and contractual life of issued stock option plan

Conversion price in €	Number of issued stock options	Remaining contractual life	Number of exercisable stock options
2.93	120,536	1	120,536
5.35	30,100	2	30,100
5.53	9,460	3	9,460
6.48	166,367	3	166,367
4.60	45,179	7	45,179
4.68	80,000	7	80,000
7.69	60,237	8	60,237
8.10	40,000	8	40,000
12.37	134,082	9	–[1)]
10.22	115,678	10	–[1)]
–	**801,639**	–	**551,879**

[1)] Stock options granted in 2005 and 2006 were not exercisable as of December 31, 2006.

The weighted average remaining contractual life of stock options outstanding is 4.42 years.

c) Convertible bonds

In 2006, no convertible bonds were issued to employees of the group's subsidiary MediGene, Inc. (2005: 9,000 convertible bonds).

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

The number of convertible bonds valid and still outstanding within the scope of the equity participation program was 103,529 (2005: 126,772) as per December 31, 2006. The weighted average remaining contractual life of convertible bonds outstanding is 2.33 years.

Total changes in convertible bonds

	2006	2005	2004
Opening balance Jan. 1	126,772	332,168	107,523
Granted	0	9,000	243,277
Exercised	-120	-203,426	-1,757
Forfeited	-258	-9,970	-16,875
Lapsed	-22,865	1,000	0
Closing balance Dec. 31	103,529	126,772	332,168
Average exercise price € per share	8.62	12.66	9.55

Conversion price and life of issued convertible bonds

Conversion price in €	Coupon in % p.a.	Number of issued bonds	Remaining contractual life	Number of exercisable bonds
11.72	2.5	22,325	1	22,325
26.40	2.5	1,957	1	1,957
9.90	2.5	1,600	1	1,600
3.80	2.5	10,300	2	10,300
4.83	2.5	14,537	2	14,537
4.97	2.5	1,600	2	1,600
7.69	2.5	17,210	3	17,210
8.08	2.5	25,000	3	25,000
12.37	2.5	9,000	4	–[1]
		103,529		94,529

[1] Convertible bonds granted in 2005 were not exercisable as of December 31, 2006.

d) Contingent capital and specification of contingent capital

The company's share capital was increased conditionally by 5,000,000 € (Conditional Capital XV) by a shareholders' meeting resolution of June 10, 2005. The sole purpose of the conditional capital is to grant new shares to the holders of warrant-linked bonds or convertible bonds that are issued in accordance with the regular shareholders' meeting resolution of June 10, 2005 by the company or by companies in which the company has a direct or indirect majority stake. If the shares come into being before the company's regular shareholders' meeting commences, they entitle their owners to a share in the profits from the beginning of the previous financial year; or if this is not the case, from the beginning of the financial year in which they come into being.

In accordance with the general shareholders' meeting of June 2, 2006, the company's share capital was increased by up to 1,000,000 new bearer ordinary (no-par-value) shares (Conditional Capital XVI). The purpose of the conditional capital is to grant stock options to members of the Executive Board, to the management bodies of affiliated subordinate companies in Germany and abroad and to the managers and employees of the company and of subordinate companies. The term of the stock options is 10 years. The stock options can be exercised only if the unweighted closing price average of MediGene stock on the 30 trading days preceding the first day of the respective exercise period amounts to at least 120% of the exercise price. If this prerequisite is fulfilled for a particular exercise period, options may be exercised during this exercise period irrespective of the further price development of the MediGene stock. The management assumes that the first issue of stock options from such a stock option program will take place in 2007.

Specification of contingent capital

(No.)	Amount Dec. 31, 2006	Usage
I	225,366	Options
II	105,784	Options
III	125	TBG[1]-loan
IV	13,770	Convertible bonds
V	664,745	Convertible bonds
VI	3,000	Convertible bonds
VII[2]	–	Convertible bonds
VIII	3,000	Convertible bonds
X	3,000	Convertible bonds
XI	2,600	Convertible bonds
XII[3]	496,540	Convertible bonds
XIII[2]	–	Convertible bonds
XV	5,000,000	Options
XVI[3]	1,000,000	Options
	7,517,930	

[1] Technologie participation company
[2] Cancelled by shareholders' resolution of June 10, 2006.
[3] Newly created by by shareholders' resolution of June 10, 2006.

e) Dilutive effect

As per the closing date December 31, 2006, the total number of shares outstanding was 28,653,630 and the number of »fully diluted« shares was 29,558,798. The changes in equity arising from the exercise of options and convertible bonds are specified in the consolidated changes in shareholders' equity.

(47) Capital reserves

4,460 stock options and 120 convertible bonds were converted in 2006. The equity component of the convertible bonds was 6 T€ as per December 31, 2006. The capital reserve increased through the issue of shares against contributions in cash (March 2006) and kind (September 2006).

Capital reserves

In T€	Jan. 1, 2005	Change	Dec. 31, 2005	Change	Dec. 31, 2006
Shares issued	268,648	0	268,648	53,632	**322,280**
Expenses capital increase	-13,561	0	-13,561	-1,270	**-14,831**
Exercised stock options	484	211	695	16	**711**
Exercised convertible bonds	228	1,182	1,410	1	**1,411**
Expenses new options/bonds	1,083	501	1,584	472	**2,056**
Total	**256,882**	**1,894**	**258,776**	**52,851**	**311,627**

(48) Accumulated deficit

Accumulated deficit

In T€	Jan. 1, 2005	Change	Dec. 31, 2005	Change	Dec. 31, 2006
Retained earnings	-213,665	-12,045	-225,710	-6,891	**-232,601**
Total	**-213,665**	**-12,045**	**-225,710**	**-6,891**	**-232,601**

(49) Other reserves

Other reserves

In T€	Jan. 1, 2005	Change	Dec. 31, 2005	Change	Dec. 31, 2006
Unrealized gain/profit from market valuation QLT shares	-8	8	0	243	**243**
Currency translations adjustments	-20	-35	-55	644	**589**
Total	**-28**	**-27**	**-55**	**887**	**832**

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

(50) Long-term debt

Debt can be summarized as follows:

Long-term debt

In T€	Dec. 31, 2006	Dec. 31, 2005	Change
Long-term debt	98	115	-15%
Total	98	115	-15%

Long-term loans as per December 31, 2006 include convertible bonds. Neither current nor long-term finance lease liabilities existed as per the closing date December 31, 2006.

(51) Pension accruals

The accrual amount in the balance sheet was calculated as follows:

Pension accruals

In T€	Dec. 31, 2006	Dec. 31, 2005
Present value of funded obligations	933	735
Fair value of plan asset	-840	-575
Sub-total	93	160
Unrecognized actuarial losses	-12	-63
Liability in the balance sheet	81	97

The plan assets comprise employer's pension liability insurance policies. Actual income from liability insurance is 2 T€ (2005: loss 38 T€). The following amounts were reported in the income statement as personnel expenses:

Expenses recognized in the income statement

In T€	2006	2005
Current service cost	61	90
Interest cost	29	29
Expected return on plan asset	-24	-22
Actuarial losses recognized in the year	3	4
Past service cost	–	–
Losses on curtailment	–	–
Total included in personnel expenses	69	101

Principal actuarial assumptions

in %	2006	2005
Discount rate	4.5	4.0
Expected return on plan asset	4.5	4.0
Future salary increases	4.5	4.0
Future pension increases	1.0/2.0	2.0

Like in the previous year the 2005G guideline tables devised by Professor Klaus Heubeck were used as the biometric basis of calculation. Probabilities of fluctuation were not taken into account.

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

In T€	Dec. 31, 2006
Benefit obligation at Jan. 1, 2005	606
Interest cost	29
Service cost	59
Plan members' contributions	31
Actuarial losses	10
Benefit obligation at Dec. 31, 2005	735
Interest cost	29
Service cost	61
Plan members' contributions	178
Actuarial gains	-70
Benefit obligation at Dec. 31, 2006	933

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

In T€	Dec. 31, 2006
Fair value of plan assets at Jan. 1, 2005	**364**
Expected return on plan asset	22
Employer contributions	218
Member contributions	31
Actuarial gains	-59
Fair value of plan assets at Dec. 31, 2005	**576**
Expected return on plan asset	24
Employer contributions	85
Member contributions	178
Actuarial gains	-23
Fair value of plan assets at Dec. 31, 2006	**840**

Amounts for the current and previous four periods are as follows:

In T€	2006	2005	2004
Benefit obligation	**933**	735	36
Fair value of plan asset	**840**	576	0
Funded status	**92**	157	36
Unrecognised net actuarial losses	**-17**	-67	0
Experience adjustments on plan liabilities	**1**	0	0
Experience adjustments on plan asset	**6**	5	0

(52) Income Taxes

Deferred taxes on income as per December 31, 2006 refer to the following items:

Deferred taxes

In T€	Consolidated balance sheet		Consolidated income statement	
	Dec. 31, 2006	Dec. 31, 2005	2006	2005
Deferred tax assets				
Deferred taxes on carry forward tax losses				
Germany	**40,739**	41,274	**1,055**	2,832
USA	**14,889**	15,422	**1,055**	1,194
Great Britain	**10,383**	0	**715**	0
	66,011	**56,696**	**2,825**	**4,026**
Valuation allowance	**-54,392**	-56,696	**-874**	-4,026
Net	**11,619**	**0**	**1,951**	**0**
Difference from useful life of assets	**1,030**	84	**-4**	6
Other taxes from grants	**2,709**	2,846	**156**	-114
Derivative financial instruments	**36**	0	**36**	0
Convertible bonds	**0**	40	**-40**	20
Capital lease	**0**	42	**-42**	-96
Milestone payments	**0**	240	**-240**	-480
Liability pension insurance	**113**	59	**54**	59
Valuation of accruals	**0**	12	**-12**	-14
	3,888	**3,323**	**-92**	**-619**
non deductable	**-2,785**	-1,840	**-1,238**	366
	1,103	1,483	**-1,330**	-253
Deferred tax liabilities				
Capitalization of acquired licenses	**13,557**	1,362	**93**	93
Difference from useful life of assets	**0**	32	**32**	28
Capital lease	**39**	65	**26**	81
Pension accruals	**79**	24	**-55**	51
Convertible bonds	**2**	0	**-2**	0
	13,677	**1,483**	**94**	**253**
Deferred tax income			**715**	**0**
Deferred tax liability	**-955**	**0**		
Stated in balance sheet				
Deferred tax asset	**0**	0		
Deferred tax liability	**-955**	**0**		
Deferred tax liability	**-955**	**0**		

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

The calculation of the deferred taxes is based on a mixed tax rate of 35.98% consisting of a corporate income tax rate of 25%, a solidarity surcharge of 5.5% and trade tax of 13.04%. The deductibility of the trade tax was taken into account when the mixed tax rate was determined. The country-specific tax rates were applied to the deferred taxes of the foreign operations.

The reported tax expenses diverge from the expected tax expenses that had been calculated by applying the nominal tax rate (35.98%) to revenues in accordance with IFRS. A transition of the differential effects is shown in the table below.

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

Deferred taxes

In T€	2006	2005
Earnings before tax	-7,606	-12,045
Expected tax income	**2,737**	**4,334**
Increase of not reported deferred taxes from retained tax losses carried forward	**-874**	-4,026
Temporary differences	**-1,238**	366
Non-deductible expenses/other	**-312**	-789
Effect of tax rate differences USA	**114**	115
Effect of tax rate differences UK	**-160**	0
Expenses capital increases	**457**	0
Other	**-9**	0
Actual tax income	**715**	**0**

Tax income for financial year 2006 consists solely of the effects from the emergence and reversal of temporary differences.

Carried forward losses

In T€	Dec. 31, 2006	Dec. 31, 2005
Corporate taxes Germany	**110,591**	115,195
Trade taxes Germany	**109,059**	113,512
State Tax USA	**36,211**	37,373
Federal Tax USA	**37,578**	38,946
Corporate Tax UK	**37,777**	–

Under the German Corporate Income Tax Act (KStG), tax losses can be carried forward for an unlimited number of years. The deduction of existing loss carryforwards is excluded when the company carrying those losses forward loses its fiscal identity. The loss of such a corporate fiscal identity is assumed when the following two criteria are cumulatively fulfilled: (i) more than 50% of the company's shares were transferred and (ii) the company is continuing its business operations or resuming them afresh with predominantly new assets. The legally restricted deductibility of operating losses applies to both corporate income tax and trade tax. It is possible that the company lost part of its loss carryforwards as a result of the capital increase within the framework of the IPO. The deduction of tax loss carryforwards from taxable income will be limited to 1 million € annually in the coming years, whereby an exceeding loss carryforward of 60% will be deducted (minimum taxation).

The loss carryforwards of subsidiary Avidex Ltd. in the UK can be utilized without restriction. By contrast, the loss carryforwards of MediGene, Inc. (USA) will expire between 2009 and 2026. In the United States, tax loss carryforwards based on federal tax can be utilized for 20 years, while those based on state tax expire after 10 years.

(53) Trade payables

Trade payables of 2,638 T€ (2005: 845 T€) existed as outstanding accounts, mainly from services already used by MediGene.

(54) Derivative financial instruments

The contract concluded with Astellas Pharma Europe Ltd. for the marketing of Eligard® contains an embedded derivate, as the contract is transacted in US dollars and not in the functional currency of either contracting party. Gains (losses) from this derivate arise from exchange rate losses (gains) of the US dollar to the euro and are recorded with net effect on income at the end of each period. Valuation of the embedded derivate is based on available orders from Astellas Pharma Europe Ltd.

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

(55) Short-term financial debt
The new MediGene shares arising from the acquisition of Avidex Ltd. had not been issued in full as of the balance sheet date and are therefore reported in the balance sheet as financial debt of 610 T€.

(56) Provisions
A provision of 780 T€ was formed in order to fulfill the FDA requirements regarding the authorization of Polyphenon® E Ointment.

(57) Other current liabilities
Other current liabilities totaling 9,931 T€ (2005: 3,343 T€) contain the Oracea™ license fee of 3,793 T€ still payable as per the closing date. In addition, current liabilities exist in the form of payable product license fees of 1,380 T€ (2005: 725 T€) and due payments for clinical trials and authorization for services used but not yet invoiced totaling 1,714 T€ (2005: 353 T€).

G) Consolidated statement of changes in equity

The consolidated statement of changes in equity for the financial years 2006 and 2005 is presented on page 69 of the Notes.

H) Notes on the cash flow statement

The cash flow statement shows the origin and use of the cash flows in the financial years 2006 and 2005. It is therefore of pivotal significance for an assessment of the company's financial situation.

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

Within the non-cash financing activities, no finance lease obligations were entered into for laboratory and office equipment in 2006.

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

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

I) Segment reporting

Primary reporting – business units
As per December 31, 2006, the group, in global terms, is organized into two primary business units: »Specialty Pharma« and »Biopharma«. The segments are composed as follows:

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

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

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

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

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

Segment reporting by market segments

In T€	Specialty Pharma	Biopharma	Other/not allocated	Eliminations	Total
2006					
Sales to external customers	30,554	629	41	0	**31,224**
Intersegment sales	0	0	152	-152	**0**
Total revenues	30,554	629	193	-152	**31,224**
Cost of sales	10,669	0	0	–	**10,669**
Gross profit	19,885	629	41	–	**20,555**
Selling expenses	429	0	1,075	–	**1,504**
General and administrative expenses	0	0	6,135	–	**6,135**
Research and development expenses	2,588	18,687	0	–	**21,275**
Operational result from continued operations (EBIT)	**16,868**	**-18,058**	**-7,169**	–	**-8,359**
Financial result					**753**
Net result before taxes from continued operations					**-7,606**
Taxes					**715**
Result from discontinued operations					**0**
Net loss					**-6,891**
Segments assets	1,902	63,886	58,348		**124,136**
Segment liabilities	0	367	15,257		**15,624**
Depreciation	6	901	161		**1,068**
Average number of employees	14	80	27		**121**
Segment investments[1)]	5	206	4,070		**4,281**
Proivisions and employee benefit liabilities			81		**81**
2005					
Sales to external customers	15,591	4,030	61	0	**19,682**
Intersegment sales	0	0	37	-37	**0**
Total revenues	15,591	4,030	98	-37	**19,682**
Cost of sales	9,077	0	0	–	**9,077**
Gross profit	6,514	4,030	61	–	**10,605**
Selling expenses	309	0	791	–	**1,100**
General and administrative expenses	0	0	5,023	–	**5,023**
Research and development expenses	4,815	11,182	0	–	**15,997**
Operational result from continued operations (EBIT)	**1,390**	**-7,152**	**-5,753**	–	**-11,515**
Financial result					**-529**
Net result before taxes from continued operations					**-12,044**
Taxes					**0**
Result from discontinued operations					**-1**
Net loss					**-12,045**
Segments assets	1,258	15,769	40,035	–	**57,062**
Segment liabilities	667	506	4,112	–	**5,285**
Depreciation	2	1,166	179	–	**1,347**
Average number of employees	21	57	30	–	**108**
Segment investments[1)]	3	243	206	–	**452**
Provisions and employee benefit liabilities			97	–	**97**

[1)] Investments also include finance lease investments.

Secondary reporting – geographical segments/segments by regions

Apart from the United States and Germany, the MediGene Group has also been operating in Great Britain since September 2006. For this reason, MediGene has adjusted the classification of geographical segments. The newly created Europe segment comprises the group's activities in Germany and the UK. Segment reporting by region comprises only continuing activities. Discontinued activities concerned only the site in Germany.

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and cash and cash equivalents used for operating purposes. They exclude deferred taxes. Segment liabilities consist of operating liabilities. Segment investments consist of additions to property, plant and equipment, intangible assets and finance lease investments.

Segment reporting by geographical segments

In T€	Europe 2006	USA 2006	Total 2006	Europe 2005	USA 2005	Total 2005
Total revenues	31,224	0	31,224	19,678	4	19,682
Cost of sales	10,669	0	10,669	9,077	0	9,077
Research and development expenses	18,773	2,502	21,275	13,630	2,367	15,997
Selling, general and administrative expenses	7,265	374	7,639	5,646	477	6,123
Operating result (EBIT)	-5,483	-2,876	-8,359	-8,675	-2,840	-11,515
Segment investments	4,278	3	4,281	452	0	452
Cash flows from operating activities	155	-2,708	-2,553	8,669	-2,548	-11,217
Segment assets						
Allocated	65,620	168	65,788	16,868	159	17,027
not allocated			58,348			40,035
Segment assets, total			124,136			57,062
Segment liabilities						
Allocated	367	0	367	602	571	1,173
not allocated			15,257			4,112
Segment liabilities, total			15,624			5,285
Average number of employees	115	6	121	98	7	105

J) Other notes

(58) Financial instruments

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

In T€	Carrying amount		Fair value	
	2006	2005	2006	2005
Financial assets				
Cash and cash equivalents	52,498	37,625	52,498	37,625
Investments	1,501	1,258	1,501	1,258
Financial liabilities				
Convertible bonds	98	115	104	127
Obligations unter finance leases and hire purchase contracts	0	115	0	121
Derivative financial instruments	101	0	101	0
Other financial liabilities	610	0	737	0

(59) Cooperation agreements

Astellas Pharma Europe Ltd.

On January 12, 2004, the company concluded a cooperation, sublicensing and supply agreement with the pharmaceuticals group Astellas Pharma Europe Ltd., Staines, UK (hereinafter also referred to as Astellas Pharma) for the marketing of Eligard® in Europe. The company granted Astellas Pharma the exclusive sublicense for the marketing of Eligard® in four formulations with the right to acquire additional sublicenses. In Europe, Astellas Pharma is the third-largest pharmaceuticals company in the field of urology. Since May 2004, Astellas Pharma has been marketing the one-month and three-month sustained release forms of Eligard® for the treatment of prostate cancer in Germany. Apart from a one-time payment upon the signing of the contract and milestone payments already effected, MediGene will also receive a share (royalties) in the revenues generated by Eligard®. If specific Eligard® sales targets are reached, MediGene will receive milestone payments from Astellas. The term of the contract corresponds to the duration of the European patents.

QLT, Inc.

In 2001, MediGene acquired the European marketing rights for the prostate cancer drug Eligard® (formerly Leuprogel™) from the US-based company Atrix Laboratories, Inc., Fort Collins, Colorado, USA (now QLT USA, Inc., Fort Collins, USA). This agreement gave MediGene the exclusive European marketing rights for various dosages of the product. In 2004, Atrix Laboratories, Inc. was acquired by the Canadian company QLT, Inc. In addition to milestone payments for market authorization and sales targets, the licenser QLT, Inc. receives payments from MediGene on purchase of the goods and a royalty on the ongoing sales revenues. As part of the marketing agreement, MediGene acquired shares in Atrix Laboratories, Inc. These shares were swapped for QLT shares in the course of the company's acquisition.

Bradley Pharmaceuticals, Inc.

Effective January 30, 2006, MediGene has entered into a partnership agreement with Bradley Pharmaceuticals, Inc. for the commercialization of Polyphenon® E Ointment in the United States. The term of the contract is at least as long as the patent duration. Bradley Pharmaceuticals, Inc., a US specialty pharmaceuticals company with a focus on dermatology, will market and distribute the ointment for the treatment of genital warts in the US. Depending on specific milestones being achieved, MediGene will receive successive payments with a total volume of up to 69 million US$. In addition, MediGene will participate in Polyphenon® E Ointment sales. Milestone payments are linked to progress made in the development, market authorization, and marketing of Polyphenon® E Ointment for the indications genital warts and actinic keratosis, and to certain sales targets being met. Within the agreed development partnership Bradley will cover the bulk of the costs incurred if Polyphenon® E Ointment is developed for additional dermatological indications. MediGene has the right of use for all development results outside the United States. In the US, Bradley holds the marketing rights for Polyphenon® E Ointment for all skin diseases.

CollaGenex Pharmaceuticals, Inc.

MediGene has acquired the European marketing rights for Oracea™ from US specialty pharmaceuticals company CollaGenex Pharmaceuticals, Inc. The drug for the treatment of the skin disease rosacea is in an advanced stage of the authorization process in Europe, and has already been approved and launched in the US. CollaGenex will receive a one-time payment of approximately 3.8 million € for Oracea™ from MediGene, as well as a share in Oracea™ sales and milestone payments for the attainment of specified sales goals. The application for market authorization for this drug has been submitted in ten European countries to date. MediGene anticipates the approval of Oracea™ in the first half of 2007 and expects the European market launch to take place in the latter half of 2007. Oracea™ was developed by US company CollaGenex and was introduced onto the US market this year with promising initial sales. The term of the contract will last for the duration of the Oracea™ patents in Europe.

Other licensing agreements

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

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

(60) Legal disputes

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

On April 20, 2005, the Third Nullity Board at the German Federal Patents Court decided in an oral hearing that all of the claims from the aforementioned patent that Takeda and Wako were asserting against MediGene and Astella before Düsseldorf Local Court were invalid within the Federal Republic of Germany. Takeda and Wako have appealed against this judgment before the Federal Court of Justice (BGH), whose verdict is expected for 2007 at the earliest. At the same time, Düsseldorf Local Court suspended the suit for patent infringement until the final ruling in the suit for invalidity, whereas the patent in question expired in early May 2006.

In the further course of the matter, MediGene lodged an appeal against the granting of European patents EP 1 310 517 B1 and EP 1 330 293 B1 to Wako Pure Chemical Industries Ltd. and Takeda Pharmaceutical Company Ltd., and to Takeda Pharmaceutical Company Ltd. in April and May 2006, respectively. In addition, there was a parallel court case concerning patent infringement in the United States, in which MediGene's supplier and licenser QLT USA, Inc. (formerly Atrix Laboratories, Inc.) and the US marketing partner of QLT USA, Inc., Sanofi-Synthelabo, Inc., were sued on grounds of patent infringement by Takeda Abbott Pharmaceutical Product, Inc., Takeda Chemical Industries Ltd. and Wako Pure Chemical Industries Ltd. According to a press release issued by QLT USA, Inc. on February 9, 2007, this legal dispute was settled out of court.

In May 2003, in order to eliminate any legal uncertainties regarding Polyphenon® E, the company opposed European patent no. EP 0 814 823 B1 of Indena S.p.A., Milan, which covers specific polyphenol fractions in green tea. In June 2004, Indena S.p.A. thereupon limited the patent to a scope which is of no significance for MediGene. In December 2005, the Opposition Division of the European Patent Office repealed the patent in its entirety. At present it is uncertain whether Indena will appeal this decision.

(61) Contingent liabilities

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

As per the balance sheet date, there was a rent security guarantee (273 T€) and a bank guarantee (27 T€) vis-à-vis the respective lessor.

When it acquired the assets of the former Munich Biotech AG, MediGene committed itself to make milestone payments to the liquidator. Depending on the clinical success of EndoTAG™-1, the payments in question will fall due when clinical phase III begins and amount to 9.5 million €. No provision needed to be formed as, due to the product's current state of development, the probability of occurrence of these payments is viewed to be below 50%.

The future annual minimum lease installments for operating leases are as follows:

In T€	Operatives leases
2007	1,307
2008	1,063
2009	762
2010	13
Thereafter	8
Minimum lease obligations	3,153

The company leases office and laboratory space, office furnishings, laboratory equipment and motor vehicles. These constitute operating leases since the group by contract does not carry the risks and potential rewards. The lease agreements have different terms, rental increase clauses and extension options. The group has notice periods ranging from one month to five years for these lease agreements. Operating leases incurred costs totaling 1,334 T€ (2005: 1,142 T€).

(62) Total unused/open credit lines

In addition to the cash and cash equivalents reported in Item (45), no open credit lines existed as per December 31, 2006.

(63) Major events since the closing date

MediGene successfully concludes capital increase in February 2007

MediGene successfully concluded the capital increase that was decided on February 15, 2007. Within the capital increase, DZ BANK used an »accelerated bookbuilding« process to subscribe for 2,062,040 new MediGene shares that were offered to institutional investors in Germany and other countries in Europe at issue price. The result of the issuance of the new shares at an issue price of 6.10 € per share is a gross cash inflow for MediGene totaling approximately 12.6 million €. Upon recording of the capital increase in the Commercial Register, the capital stock of the company, partitioned into the same number of shares, has increased to 30,843,183.00 €. MediGene intends to utilize the income generated by the capital increase for the creation of a sales organization in the dermatology sector, as well as for financing ongoing research and development projects.

No further changes concerning the business situation had occurred by March 1, 2007.

(64) Major concentrations of risks

MediGene's sales revenues arise mainly from the marketing of Eligard® by its partner Astellas Pharma Europe Ltd. and from the cooperation agreement concluded with Bradley Pharmaceuticals, Inc.

(65) German Corporate Governance Code

On November 27, 2006 MediGene AG's Executive Board and Supervisory Board confirmed that MediGene AG complies with the majority of recommendations of the German Corporate Governance Code, version of July 24, 2006. The recommendations not implemented by MediGene AG are explained in the Declaration of Compliance in accordance with Section 161 German Stock Corporation Act (AktG). This declaration is permanently accessible in German and English on the company's website (http://www.MediGene.de/englisch/corporate_governance.php).

(66) Auditing fees

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

Auditing fees

In T€	2006
Audit	85
Other certification or valuation services	150
Tax consulting services	0
Other services	45
Total	280

K) Executive Board and Supervisory Board

(67) Changes on the Executive Board

There were no changes on the Executive Board in 2006.

Executive Board compensation

The total compensation paid to the members of the Executive Board in the last financial year was 1,173 T€ (2005: 974 T€). Executive Board compensation comprises fixed and variable components, as well as performance incentives to achieve a long-term increase of goodwill. The criteria for the variable compensation components are laid down in advance each year. Long-term compensation components consist in stock options. The intention is to create performance incentives aimed at sustained corporate success. Success benchmarks may not be changed subsequently. There were no advance payments to board members.

Executive Board compensation 2006[1)]

			Other variable compensation with as long-term incentive	
Executive Board member	Fixed compensation in T€	Variable compensation in T€	Number of stock options	Value of options in T€
Dr Peter Heinrich, Chief executive officer	249	178	20,000	72
Alexander Dexne, Chief financial officer	195	139	20,000	72
Dr Ulrich Delvos, Chief operating officer	239	116	20,000	72
Summe	**683**	**433**	**60,000**	**216**

[1)] There was an additional expenditure of 57 T€ for Executive Board member pensions.

(68) Changes on the Supervisory Board

Changes on the Supervisory Board

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

Supervisory Board compensation

The compensation paid to the members of the Supervisory Board totaled 247 T€ in 2006 (2005: 266 T€). Supervisory Board compensation comprises a fixed cash amount and fees for attended meetings. The duties of the Chairman and Deputy Chairman are considered according to their scope. Information on subscription rights of members of the managerial bodies and employees is provided under (69). No advance payments were made to the Supervisory Board.

Supervisory Board compensation 2006

Supervisory Board member	Fixed compensation in T€	Variable compensation in T€	variable compensation with as long-term incentive (no. of convertible bonds or stock options)	Compensation for individually performed services in T€
Prof. Dr Ernst-Ludwig Winnacker, Chairman	48	20	0	0
Dr Norbert Riedel, Vice Chairman	36	15	0	0
Dr Pol Bamelis, Member	24	10	0	0
Sebastian Freitag, Member (since June 10, 2005)	24	10	0	0
Dr Manfred Scholz, Member	24	2	0	0
Michael Tarnow, Member	24	10	0	0
Total	**180**	**67**	**0**	**0**

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

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

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

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

Sebastian Freitag
since June 10, 2005
Investment Banker, Frankfurt

Dr Manfred Scholz
since June 2, 2004
former Managing Director, Augsburg Airways GmbH & Co. KG, Augsburg

Michael Tarnow (until January 31, 2007)
since May 23, 2001
Consultant, Boston MA, USA

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

Prof. Dr Ernst-Ludwig Winnacker
- Bayer AG, Leverkusen
- KWS Saat AG, Einbeck
- Wacker Chemie AG, Munich

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

Dr Pol Bamelis
- Bekaert N.V., Belgium
- Innogenetics N.V., Belgium
- Oleon N.V., Belgien
- PolyTechnos, Ltd., Guernsey, UK
- Recticel, Belgium
- Sioen N.V., Belgium
- Devgen N.V., Belgium
- Televic N.V., Belgium

Sebastian Freitag
- CeWe Color Holding AG, Oldenburg

Dr Manfred Scholz
- ASSTEL Lebensversicherung, Cologne
- CINVEN, London/Frankfurt, UK/Germany
- Citigroup Global Markets Deutschland AG & Co KGaA, Frankfurt
- Droege & Comp., Düsseldorf
- Gothaer Finanzholding AG, Cologne
- Pfleiderer AG, Neumarkt

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

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

Members	Shares 2006	Shares 2005	Options 2006	Options 2005	CB[1] 2006	CB[1] 2005
Prof. Dr Ernst-Ludwig Winnacker Supervisory Board Chairman, Co-founder	**268,676**	292,676	**37,700**	38,700	**1,600**	3,200
Dr Norbert Riedel Deputy Supervisory Board Chairman	**3,300**	3,300	**5,590**	5,590	**0**	0
Dr Pol Bamelis, Supervisory Board member	**1,000**	1,000	**0**	0	**800**	1,200
Sebastian Freitag, Supervisory Board member	**0**	0	**0**	0	**0**	0
Dr Manfred Scholz, Supervisory Board member	**80,000**	86,500	**0**	0	**0**	0
Michael Tarnow (until Jan. 31, 2007), Supervisory Board member	**6,337**	6,337	**0**	0	**15,800**	36,200
Total supervisory board	**359,313**	**389,813**	**43,290**	**44,290**	**18,200**	**40,600**
Dr Peter Heinrich Chief Executive Officer, Co-founder	**503,505**	503,505	**116,636**	96,636	**0**	0
Dr Ulrich Delvos, Chief Operating Officer	**2,000**	1,000	**25,000**	5,000	**0**	0
Alexander Dexne, Chief Financial Officer	**0**	0	**100,000**	80,000	**0**	0
Total executive board	**505,505**	**504,505**	**241,636**	**181,636**	**0**	**0**
Treasury stock	**0**	**0**	**0**	**0**	**0**	**0**

[1] Convertible bonds

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

MediGene AG received the following notifications in accordance with Section 21 WpHG and disclosed them in accordance with Section 25 WpHG.

After the capital increase effected in March 2006, the interest of TVM fell below the 5% threshold. TVM V Life Science Management GmbH & Co. KG, Munich, notified MediGene AG in writing on March 14, 2006 that its voting interest in the company had fallen below the threshold of 5% and was at 4.98% at that point in time. 4.98% of these voting rights were to be allocated to TVM V Life Science Management GmbH & Co. KG, Munich, in accordance with Section 22 (1), no. 1 WpHG.

A number of former shareholders of the Avidex Ltd. company acquired in September 2006 are represented by Mr. Rainer Kreifels. Since the balance sheet date December 31, 2006, MediGene has made the following Section 26 (1) WpHG disclosures relating to the acquisition of Avidex Ltd.:

Mr. Rainer Kreifels, Munich, notified MediGene AG on January 19, 2007 that his voting interest in the company had exceeded the threshold of 10% as of December 11, 2006 and amounted to 23.785% (6,806,950 votes) at that point in time. 23.785% of these voting rights were to be allocated to Mr. Rainer Kreifels in accordance with Section 22 (1), no. 6 WpHG. Furthermore, Mr. Rainer Kreifels, Munich, notified MediGene AG on January 19, 2007 that his voting interest in the company had fallen below the 10% threshold on January 16, 2007 and amounted to 9.699% (2,778,959 votes) at that point in time. 9.699% of these voting rights are to be allocated to Mr. Rainer Kreifels in accordance with Section 22 (1), no. 6 WpHG.

In the context of the capital increase against contributions in cash effected in February 2007, DZ BANK AG disclosed the following:

DZ BANK AG, Frankfurt am Main, notified MediGene AG on February 16, 2007 that its voting interest had exceeded the 3% and 5% thresholds as of February 15, 2007 and amounted to 6.69% (2,062,040 votes) at that point in time. DZ BANK AG, Frankfurt am Main, notified MediGene AG on February 23, 2007 that its voting interest had fallen below the thresholds of 3% and 5% as of February 23, 2007 and amounted to 0.00% (0 votes) at that point in time.

(71) Related parties

Deemed to be related parties are those entities and/or individuals that can be materially influenced by the company or exert a material influence on the company. Related parties are the members of the Executive Board and Supervisory Board of the company. The compensation of the company's Executive and Supervisory Board members and their shareholdings are listed individually under (K) »Executive Board and Supervisory Board.« In the last financial year there were no transactions other than these between the group and related parties.

Executive board

Martinsried, March 1, 2007
MediGene AG

Dr Peter Heinrich
Chief Executive Officer

Alexander Dexne
Chief Financial Officer

Dr Ulrich Delvos
Chief Operating Officer

Report from the Supervisory Board

In fiscal year 2006, the Supervisory Board performed in full its statutory duties and the duties specified in the Articles of Incorporation. On the basis of verbal and written reports by the Executive Board, the Supervisory Board kept the corporation's management under continuous surveillance. The Executive Board regularly reported on the corporation's economic status and business development position, corporate planning, major business transactions and fundamental matters of corporate policy, including the strategic and organizational alignment, cost and earnings trends, investment measures and financial planning.

The Supervisory Board performed its duties during four meetings (March 1, 2006, June 2, 2006, August 1, 2006 and November 27, 2006), in two meetings held on January 30, 2006 and August 22, 2006 via conference call, and in further telephone discussions. On specific issues employees of the company were consulted. The Supervisory Board was also available to the Executive Board for one-on-one discussions. In general, the Chairman of the Supervisory Board spoke with the Chairman of the Executive Board at least once a week, keeping himself and his Supervisory Board colleagues updated about major business transactions, and offering advice and support.

Focal Points of Discussion

All business submitted to the Supervisory Board for which either statutory approval or approval according to the terms of the Articles of Incorporation were required was discussed in depth with the Executive Board. Besides current business development, the Supervisory Board paid particular attention to the corporation's strategic orientation.

Aside from existing development projects, the key point of discussion was the acquisition of Avidex Ltd. which the Supervisory Board approved after detailed consultation. A subject of high relevance was the approval in the USA for the drug Polyphenon® E Ointment for the treatment of external genital warts and the succesfull negotiations for a marketing partnership for this product. The Executive Board regularly informed the Supervisory Board about the financial status of the Company and about the development of the share price. In addition, the Supervisory Board requested and received comprehensive reports about the budget for 2006, which the Supervisory Board approved after detailed consultation. The Supervisory Board also satisfied itself that the risk management system implemented was functioning as intended.

Supervisory Board Committees

In the entire fiscal year 2006, there were an Audit Committee and a Compensation Committee. During 2006 each committee held four meetings. The duties of the Compensation Committee include the personnel affairs of the Executive Board members. Focal points are the conclusion and alteration of the employment contracts with the Executive Board members and the fixing of their remuneration.

The members of the Audit Committee deal with issues relating to accounting and risk management, the required independence of the auditor, the awarding of the audit assignment to the auditor, the determination of audit focal points and the fee agreement. The Committees regularly informed the Supervisory Board Plenum about its word and discussions in the following Supervisory Board meeting.

Corporate Governance

In 2006, the Supervisory Board also dealt with MediGene's fulfillment of the recommendations of the German Corporate Governance Codex. In November 2006, the Executive Board and the Supervisory Board issued the annual declaration of compliance in accordance with §161 Stock Corporation Act. The Executive Board and the Supervisory Board have committed

themselves to follow the recommendations of the German Corporate Governance Codex accordingly. In 2006, no conflicts of interest of members of the Supervisory Board have occurred.

Members of the Supervisory Board

There have been no changes in the Supervisory Board within the Business Year 2006. Mr. Michael Tarnow resigned from the Supervisory Board, effective as of January 31st 2007. During 2006 Dr Manfred Scholz participated in less than half of the Supervisory Board meetings.

Annual Report And Consolidated Financial Statements

The auditor chosen by the Shareholders' Meeting and commissioned by the Supervisory Board, Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich, audited the Financial Statements of MediGene AG, the Consolidated Financial Statements for the fiscal year 2005, and the MD&As of MediGene AG and the group, and granted them the unqualified audit certificate. The Supervisory Board received all balance sheet and income statements and the auditor's reports. They were examined and discussed in full detail in attendance of the auditor. The auditor reported on the most important results of his audit, and answered queries.

The Supervisory Board has endorsed the auditor's findings. The Supervisory Board has within its own examination determined that no objections are raised. The Supervisory Board approves the Financial Statements of MediGene AG drawn up by the Executive Board and the Consolidated Financial Statements for the fiscal year 2006, which are thus adopted.

Comments on the Management Report

As per the closing date December 31, 2006, the capital stock consisted of 28,653,630 individual registered no-par-value shares. Each share represents one vote in the annual general meeting. There are no restrictions on voting rights. The principal shareholders do not have different voting rights. The company did not issue any shares granting privileges of controlling power. At the end of August 2006, MediGene AG acquired the British company Avidex Ltd. by means of an exchange of shares. The Avidex shareholders received a total of 8,157,787 new MediGene shares. A twelve-month market protection agreement was concluded with the former Avidex Ltd. shareholders for 5,255,058 new shares. This agreement is effective as per September 27, 2006 and expires on September 27, 2007. In addition, 1,223,668 of the shares issued will be held in trust for a period of two years.

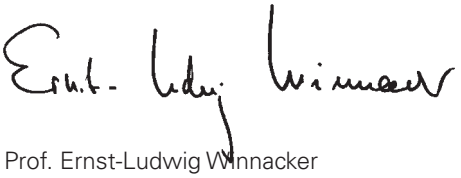
No authority was granted to acquire treasury shares in accordance with Section 71 (1) No. 6–8 of the German Stock Corporation Act. According to the Articles of Incorporation of the company, the Executive Board is authorized to issue, with the consent of the Supervisory Board, a total of up to 90,399 new bearer ordinary shares against contributions in cash or kind up to June 1, 2011. The Executive Board is authorized to determine, with the consent of the Supervisory Board, the further content of the share rights and the conditions of the issue of shares. Furthermore the Executive Board is authorized to increase the share capital of the Company up to 1 million € for the purpose of issuing employee shares.

Furthermore the Executive Board was authorized until June 9, 2010 to issue convertible bonds and/or warrant bonds in a total nominal amount of up to 125 million € with a maximum term of 15 years, and to grant to the owners of those bonds conversion rights or option rights to new shares in MediGene AG with a proportionate amount to the capital stock of up to 5 million €, in accordance with the defined conditions. The Executive Board composes of one or more member which are appointed in accordance with Section 84 (1) of the German Stock Corporation Act by the Supervisory Board for a period of no more than five years. Reappointment or the extension of a period of office is permissible, in each case for a maximum period of five years. The Supervisory Board appoints one of the members of the Executive Board as the Chairman of the Executive Board. In accordance with Section 84 (3) of the German Stock Corporation Act, the Supervisory Board is also responsible for the Executive Board's dismissal.

Pursuant to Sections 133, 179 of the German Stock Corporation Act, the Articles of Incorporation can only be changed by resolution of the Annual Meeting. in accordance with Article 18 of the Articles of Incorporation, resolutions of the Annual Meeting are passed with a simple majority of the votes cast unless otherwise stipulated by the provisions of applicable law, e.g. pursuant to Section 179, Subsection 2, Sentence 2 of the German Stock Corporation Act (Amendment to the purpose of the company) or pursuant to Section 182 Subsection 1, Sentence 2 (Issuance of nonvoting preferred shares) a majority of 75% of the capital stock represented at the Annual Meeting is required.

The Supervisory Board would like to thank the Executive Board and members of staff for their successful efforts for the company during the fiscal year 2006.

Munich, March 2007



Prof. Ernst-Ludwig Winnacker
Supervisory Board Chairman

Glossary

Actinic keratosis
Precursor of malignant spinocellular carcinoma

Biopharma
The Biopharma segment consists of MediGene's EndoTAG and oncolytic herpes simplex virus technology, as well as the product candidates EndoTAG-1, NV1020 and G207 that are derived from the above

Biopharmaceutical
Research into and development of drugs and therapies (pharmaceutics), based on biotechnology and molecular biology

Biotechnological
Utilization of natural and modified biological systems and their components

Catechines
Natural substances contained in green tea

CGU
Cash Generating Unit

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

DRS (Deutscher Rechnungslegungs Standard)
German Accounting Standard

Drug candidate
Drug under development

Drug pipeline
All drug candidates in development

EBIT
Earnings before interest and taxes

Endothelial cells
Form the walls of blood vessels

FDA – Food and Drug Administration
US regulatory authority

Genital tumors, genital warts
Benign tumors of the skin in the genital region, caused by infection with specific human papilloma viruses

Herpes simplex virus (HSV)
Virus that may cause cold sores, for instance. Infection frequently does not lead to apparent symptoms

HGB (Handelsgesetzbuch)
German Commercial Code

Hormone
Biochemical transmitter substance which controls and coordinates biochemical and physiological processes

Human papilloma virus (HPV)
Virus that may cause genital warts

IFRS
International Financial Reporting Standards

IFRIC
International Financial Reporting Interpretations Committee

Indications
Reason for the execution of a medical examination or treatment

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

Liposomes
Minute, hollow globules, composed of fat molecules

Metastasis
Secondary tumor

Malignant melanoma
Most severe type of skin cancer

Oncology
Science of tumors and tumor-related diseases

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

PDUFA Date
FDA announces decision about approval, approvability or non-approval of a new drug

Pharmacology
Science of the interaction between drug and organism

Pipeline
All the drug candidates that are under development

Placebo
Drug dummy, pharmacologically ineffective

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

R&D
Research and development

Receptor
Protein on the cell surface facilitating cell communication

Speciality Pharma
The Specialty Pharma segment encompasses Medigene's drug Eligard® and the product candidate Polyphenon® E Ointment

T-cells
Certain type of white blood cells, part of the immune system

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

Toxicology
Science of the harmful effects of substances on health

Urology
Science of the urinary organs and their diseases

Multi-year overview

MediGene Group

in T€	Change 2006/2005	2006[4]	2005[4]	2004[4]	2003[5]	2002[5]	2001[1][5]	2000[5]	1999[5]
Income Statements									
Revenues	56%	**30,549**	19,555	12,501	0	0	0	0	0
Other operating income	>200%	**675**	127	637	1,742	3,425	7,264	6,081	5,544
Cost of sales	18%	**10,669**	9,077	5,930	0	0	0	0	0
Gross profit	94%	**20,555**	10,605	7,208	1,742	3,425	7,264	6,081	5,544
Research and development expenses	33%	**21,275**	15,997	15,627	21,825	26,721	21,696	11,213	6,598
Selling, general and administrative expenses	25%	**7,639**	6,123	6,294	7,926	7,177	5,736	2,528	1,439
Amortization of goodwill	–	**0**	0	0	0	0	1,845	0	0
Depreciation[2]	–	**0**	0	0	1,031	1,085	768	323	216
Operating result before write-off »IPR&D[3]«	27%	**-8,359**	-11,515	-14,713	-29,040	-31,558	-22,782	-7,982	-2,709
Result before income tax	37%	**-7,606**	-12,044	-12,665	-28,333	-30,231	-104,583	-6,905	-2,861
Net result	43%	**-6,891**	-12,045	-12,666	-31,060	-38,870	-110,490	-9,264	-3,745
Write-off »IPR&D[3]«	–	**0**	0	0	0	0	86.543	0	0
Result per share (undiluted)	53%	**-0.31**	-0.65	-0.90	-2.53	-3.47	-10.04	-1.10	-0.56
Weighted average number of shares	21%	**22,410,901**	18,560,027	13,996,440	11,206,205	11,204,990	11,003,245	8,417,423	6,728,124
Personnel expenses	19%	**11,801**	9,931	8,427	10,973	11,245	7,938	4,089	2,316
Cash flow									
Cash flow from operating activities	76%	**-2,553**	-10,437	-12,096	-26,544	-38,635	-22,015	-6,560	-2,977
Cash flow from investing activities	>-200%	**1,996**	-413	4,785	-12	5,296	9,031	-21,494	-8,412
Cash flow from financing activities	>200%	**15,311**	61	34,341	267	312	930	110,807	4,278
Balance sheet data									
Cash and cash equivalents	40%	**52,498**	37,625	48,460	21,444	47,762	86,843	115,226	18,059
Balance sheet total	118%	**124,136**	57,062	72,894	38,367	67,079	108,383	127,790	21,268
Long-term liabilities	>200%	**1,266**	312	1,880	285	2,993	2,402	1,362	5,984
Shareholders' equity	110%	**108,512**	51,777	61,712	29,220	59,435	100,406	118,793	9,360
Equity ratio	-4%	**87%**	91%	85%	76%	89%	93%	93%	44%
Employees as at Dec. 31	**50%**	**171**	**114**	**114**	**121**	**182**	**158**	**88**	**48**
MediGene share									
Number of shares as at Dec. 31	53%	**28,653,630**	18,766,172	18,522,684	11,206,205	11,206,205	11,198,637	10,106,722	6,728,124
Net loss per share adjusted for write-off »IPR&D[3]«	53%	**-0.31**	-0.65	-0.90	-2.53	-3.47	-2.18	-1.10	-0.56
Share price (closing price, XETRA)	-17%	**6.97**	8.36	8.50	5.90	4.00	21.20	73.50	–
Dividend in €	–	**0**	0	0	0	0	0	0	0

[1] Acquisition and consolidation of MediGene, Inc. From March 1, 2001
[2] Due to the first-time adoption of International Financial Reporting Standards (IFRS) as of 2004, depreciation is included in R&D expenses, business development and general administration
[3] IPR&D = In Process Research and Development
[4] According to IFRS
[5] According to US-GAAP

Financial calendar

March 28
Annual Report 2005
Press and analysts conference

May 4
3-months report
Press and analysts conference call

May 25
Annual shareholder's meeting

August 3
6-months report
Press and analysts conference call

November 9
9-months report
Press and analysts conference call

Trademarks

Eligard®
is a trademark of QLT USA, Inc.

Polyphenon® E
is a trademark of Mitsui Norin

EndoTAG™
is a trademark of MediGene AG

RhuDex®
is a trademark of Avidex Ltd.

EsoDex™
is a trademark of Avidex Ltd.

HiDex™
is a trademark of Avidex Ltd.

Oracea™
is a trademark of CollaGenex Pharmaceuticals, Inc.

MediGene
is a trademark of MediGene AG

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Publisher
MediGene AG
Lochhamer Straße 11
82152 Planegg/Martinsried, Germany
T +49 (89) 85 65-29 0
F +49 (89) 85 65-29 20

Contact
Investor Relations
Dr Michael Nettersheim
Associate Director Investor Relations
T +49 (89) 85 65-29 46
investor@medigene.com

Public Relations
Julia Hofmann
Director Corporate Communications
Dr Georg Doenges
Manager Corporate Communications
T +49 (89) 85 65-29 86
public.relations@medigene.com

Human Resources
Dr Annette Erdmann
Director Human Resources and Organization
T +49 (89) 85 65-29 49
human.resources@medigene.com

Business Development
Dr Christine Lemke
Vice President Business Development
T +49 (89) 85 65-29 56
business.development@medigene.com

Concept and Text
MediGene AG, Martinsried, Germany

Concept and Design
Kirchhoff Consult AG, Hamburg, Germany

Production
Peschke Druck, Munich, Germany

unique
transparent
active in biotech

www.medigene.de