MediGene

RESHAPED

Annual Report 2010

In 2010, we introduced a number of measures that reshaped us as a company. Below a short overview.

- Veregen® launched by Abbott in Germany and Austria, Nycomed's US marketing activities intensified
- Arnd Christ appointed as Chief Financial Officer
- Partnership agreements concluded to market Veregen® in Greece, Cyprus, Israel, China, and South Korea
- A clinical phase II trial with EndoTAG®-1 for the treatment of triple negative breast cancer successfully completed
- European Eligard® rights sold to Astellas Pharma against payment of € 25 million and ongoing royalties
- Corporate restructuring and reorganization measures implemented

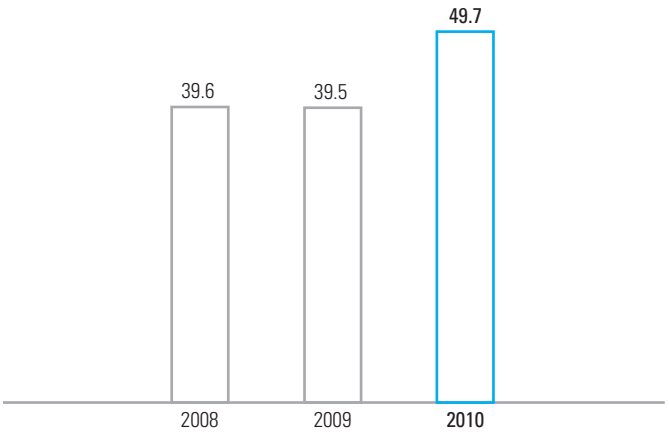
Key figures
of MediGene AG

In € thousand	2010	2009	Change
Income statement			
Product sales	**2,214**	1,178	88%
Other operating income	**78**	1,607	-95%
Total revenue	**2,292**	2,785	-18%
Cost of sales	**-781**	-837	-7%
Gross profit	**1,511**	1,948	-22%
Selling, general, and administrative expenses	**-9,399**	-8,742	8%
Research and development expenses	**-13,494**	-18,499	-27%
EBITDA	**-12,756**	-18,808	-32%
Loss resulting from spin-off	**-6,212**	0	–%
Operating result from continued operations	**-27,594**	-25,293	9%
Result from continued operations before tax	**-27,177**	-27,011	1%
Result from continued operations	**-27,177**	-27,038	1%
Product sales from discontinued operations	**47,398**	36,681	29%
Result from discontinued operations	**9,308**	5,076	83%
Net loss for the year	**-17,869**	-21,962	-19%
Earnings per share in €	**-0.49**	-0.64	-25%
Weighted average number of shares	**36,563,966**	34,231,294	7%
Personnel expenses	**-9,946**	-13,043	-24%
Cash flow statement			
Cash flow from operating activities	**-11,411**	-18,801	-39%
Cash flow from investing activities	**-321**	226	>-200%
Cash flow from financing activities	**4,469**	5,611	-20%
Balance sheet statement			
Cash and cash equivalents	**4,770**	12,251	-61%
Balance sheet total	**58,201**	65,723	-11%
Current liabilities	**17,156**	13,606	26%
Non-current liabilities	**247**	244	1%
Shareholders' equity	**40,798**	51,873	-21%
Equity ratio	**70%**	79%	-11%
Employees as at Dec. 31	**92**	114	-19%
MediGene share			
Total number of shares outstanding as at Dec. 31	**37,082,758**	35,557,493	4%
Share price (closing price, XETRA) as at Dec. 31 in €	**1.99**	3.58	-44%
Dividend in €	**0**	0	–%

MediGene at a glance

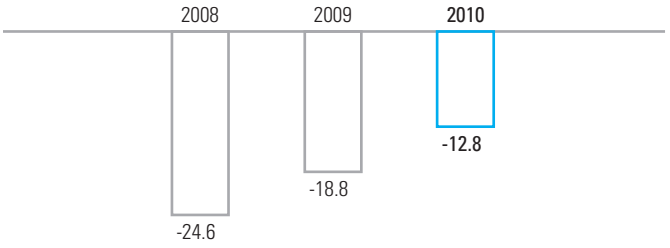
Revenue from continued and discontinued operations

In € million



EBITDA

In € million



MediGene's products and clinical projects

Product	Indication	Pre-clinic	Clinical phase I	Clinical phase II	Clinical phase III	Approval	Market
Marketed Drugs							
Eligard® see page 15	Prostate cancer						
Veregen® see page 16	Genital warts						
Drugs in development							
EndoTAG®-1 see page 17	Pancreatic cancer						
	Hormone-resistant breast cancer						
RhuDex® see page 18	Rheumatoid arthritis						
AAVLP see page 19	Vaccine technology						
Chance of reaching the market[1)]		< 10 %	< 15 %	< 30 %	< 70 %	< 90 %	

[1)] Industrial average, estimates of MediGene AG

MediGene strives to contribute to the successful treatment of critically ill patients and to improve their quality of life.

By developing innovative drugs, we want to become a sustainably profitable company, for the benefit of patients, shareholders, and employees.

Content

RESHAPED

The year 2010 marked a watershed in MediGene's corporate history. It represented a new chapter, a new stage, a cut from the past, a year in which the company was effectively reshaped. The new Executive Board restructured the organization, simplified business processes, and secured corporate financing. Drug development processes were completed, new marketing partners were found, and new data and facts provided a basis for moving on with negotiations for new partnerships. In 2010, MediGene created an excellent basis from which future growth could be facilitated.

MediGene was the first biotech company in Germany to have its own pharmaceutical products on the market, and it continues to hold a unique position today with two products on the market. MediGene's drugs are distributed by renowned partners, and the number of these partners further increased during 2010. By concluding new partnership agreements for the company's proprietary drug Veregen®, MediGene has entered new markets in Europe and Asia. In the USA, Veregen® has been available since 2009. In 2010, Veregen® was launched in Germany and Austria. Approvals and launches in other countries are due to follow in the future. In 2010, sales of the cancer drug Eligard® continued to rise. By selling the marketing rights to the drug to its marketing partner, MediGene has managed to secure considerable funding while still benefiting from the success of Eligard®.

MARKETING

MediGene develops drugs for the treatment of cancer and autoimmune diseases. In 2010, a phase II clinical trial for the treatment of breast cancer was successfully completed for EndoTAG®-1, currently MediGene's most advanced project. The data obtained from this trial complements the positive results obtained from a phase II clinical trial of EndoTAG®-1 for the treatment of pancreatic cancer. MediGene also optimized the EndoTAG®-1 manufacturing process in 2010, in order to reduce the production cost to a fraction of its previous level. The antirheumatic drug candidate RhuDex® went through a preclinical study program in 2010 intended to pave the way for resumption of clinical development. Preclinical development of the AAVLP vaccine program has also seen progress. MediGene aims to conclude one or more development and marketing partnership agreements for EndoTAG®-1 and to outlicense the rights to RhuDex® once proof of concept has been established.

DEVELOPMENT

Compared to the preceding year, MediGene significantly increased income from the drugs Eligard® and Veregen® and considerably reduced its loss for the year. Based on its present product pipeline, MediGene expects a positive operating result for the 2011 fiscal year. However, MediGene is planning to augment its drug pipeline by means of strategic transactions. With the sale of the Eligard® rights, the far-reaching reorganization of the company, and the positive development of the drug Veregen®. MediGene has established a sound financial position in 2010 and thus formed the basis for future growth.

STRATEGY & FINANCES

Interview with the Executive Board

MediGene's new Executive Board, made up of Dr. Frank Mathias and Mr. Arnd Christ, speak about the 2010 fiscal year and about upcoming plans for MediGene.

Dr. Mathias, your Annual Report 2010 is entitled »Reshaped«. Why is that?
Dr. Frank Mathias: In 2010, we entered a new era with MediGene and took some decisions that will create a new shape for MediGene. It has always been and continues to be our goal to initiate necessary changes while retaining and strengthening proven, valuable aspects of our company. For this purpose, we mapped out a new corporate strategy and took some first important steps. This path involved making cuts, considerable changes that were in part very painful. However, these cuts enabled us to open a new chapter in MediGene's history, a chapter in which we are planning for good things ahead.

What changed for MediGene in 2010?
Dr. Frank Mathias: MediGene is in a much better position now than a year ago. It has been our strategic goal to facilitate future growth by improving our financial well-being and strengthening our drug pipeline, and this will continue to be our goal for the future. In 2010, we came significantly closer to this goal. We secured the company's financial basis, improved our result, advanced the development of our products, and reorganized the company to make it more efficient. These were absolutely necessary to ensure that MediGene can look forward to an exciting and successful future.

Mr. Christ, you became Chief Financial Officer of MediGene in April 2010. What were your reasons for joining the company, and how have you experienced the time spent working for MediGene so far?
Arnd Christ: MediGene has been a pioneer and one of the most renowned biotech companies in Germany. I have been working in this industry for more than ten years now and have followed MediGene's development with great interest. When I was offered the position as Chief Financial Officer of MediGene, I accepted with great enthusiasm. At the same time, I was fully aware of the great challenge that this task represented. I think we have achieved a lot over the past few months. It was not always easy, because there were some very difficult and painful decisions to be made. On the other hand, achieving great things together with such a capable and qualified team has been highly motivating. And we still have great plans.

Dr. Frank Mathias: Arnd's drive and many years of experience as a Chief Financial Officer in biotech companies are the perfect match for MediGene and for our future tasks. He is an ideal addition to our team, and we are heading into an exciting future with a great number of ideas, a huge amount of energy and a high level of professionalism.

Mr. Christ, how have you managed to improve MediGene's financial position?
Arnd Christ: The improvement of our financial position has been our most pressing task within the defined overall strategy to bring MediGene onto a long-term growth path. Apart from the sale of the Eligard® rights and further establishing the focus of our business, the most important step we have taken has been the far-reaching reorganization of our company.

To date the drug Eligard® has been MediGene's primary revenue driver. What made it a good idea to sell the rights to the drug?
Arnd Christ: This needed to be done for several reasons. To begin with, the already narrow margins generated with Eligard® decreased even further as revenue increased. The contracts concluded with our sales partner Astellas and the manufacturer Tolmar in 2004 stipulated that MediGene had to pay licensing fees to Tolmar from a certain revenue level onwards, and these fees were more than the share in revenues that we were receiving from Astellas. In addition, price increases imposed by Tolmar, which MediGene was not permitted to pass on to Astellas, would

»MediGene is in a much better position now than a year ago.«

Dr. Frank Mathias

»Our new strategy marked the start of a new direction.«

Arnd Christ

RES

Arnd Christ

Chief Financial Officer

Arnd Christ has 15 years of international experience in business finance and management as well as mergers and acquisitions. During his tenure as Chief Financial Officer at the biotech company NovImmune SA, Geneva, Switzerland, the company successfully closed one of the largest private financing rounds in the European biotech industry. Prior to joining NovImmune, Mr. Christ held the position as Chief Financial Officer of Probiodrug AG, Halle, for 5 years, where he was responsible for several fund raising rounds as well as for the successful closing of a major asset sale to OSI Pharmaceuticals Inc. Before joining Probiodrug AG, Arnd Christ was finance manager at several subsidiaries of the Hoechst Group in Germany and UK. Arnd Christ studied at the Julius-Maximilians-Universität in Würzburg and holds a degree in business administration.

Dr. Frank Mathias

Chief Executive Officer

Dr. Frank Mathias has been Chief Executive Officer of MediGene AG since May 2009. Since April 2008, he had been Chief Operating Officer. Dr. Mathias, previously General Manager of Amgen Germany, possesses over twenty years of relevant experience in the pharmaceutical and biotech industries. Dr. Mathias holds a PhD in pharmacy and worked for Hoechst and Albert-Roussel, among other companies, prior to assuming the Head of Marketing position at Servier Deutschland GmbH in Munich where he took over as General Manager in 1996. In 2002, he joined Amgen GmbH, Munich, as Head of Marketing. He then served as the company's General Manager from 2003 – 2008.

»MediGene is now a leaner company with low costs and a strong financial basis with ongoing development projects and the ability to generate product sales. Our plans go further than that though, and we are planning to augment our drug pipeline.«

Dr. Frank Mathias

SHAPED

have resulted in an even tighter margin. The new agreement enables MediGene to benefit from a) significant positive cash flow, b) major simplifications in the Eligard® business, and c) the opportunity for MediGene to profit from future increases in revenue generated with this drug. Indeed, it is important to emphasize that we will still be participating in the success of Eligard® under the new agreement.

What does the company reorganization mean for MediGene?

Dr. Frank Mathias: Without doubt the reorganization of MediGene was a difficult decision to take, since it involved the redundancy of some of our employees. It was a hard blow for all those affected, but necessary for the company as a whole. We had found ourselves in a new situation, and were no longer fit for the future. MediGene managed to bring some major EndoTAG®-1 projects, namely the phase II clinical trial for the treatment of breast cancer and the switch of the manufacturing process, to a conclusion, and we plan to have a partner continue the development of EndoTAG®-1. The reorganization made MediGene a leaner company with low costs and a strong financial basis with ongoing development projects and the ability to generate product sales. This puts us in a solid position to implement our next strategic steps.

Is MediGene still able to manage the ongoing projects and to make provisions for future growth in spite of the reduced workforce?

Dr. Frank Mathias: We have made sure that a core team has been retained in all key departments, and that the necessary expertise

is still available in the company. Our goal is growth, and it is the reorganization of the company that has provided the scope for us to achieve this.

What will be the source of future growth?
Dr. Frank Mathias: With EndoTAG®-1, RhuDex®, and the AAVLP technology, we have several projects currently in development. Regarding EndoTAG®-1, we are looking for a partner to continue the development and takes over future commercialization of the product. RhuDex® is also designated for out-licensing once we achieve clinical proof of concept. We expect to generate future revenues from our marketed drugs Veregen® and Eligard®, with Veregen® revenues most likely to grow significantly over the coming years. Our plans go further than that though, and we are planning to augment our drug pipeline. Today we are well positioned to do so, both financially and organizationally.

According to your financial forecast, you expect to become profitable in fiscal year 2011.
Arnd Christ: This is true, as our forecast is based on our present product portfolio. If we are successful in our plans to expand MediGene's pipeline, our financial forecast would certainly need to be updated. It is our goal to complete a strategic transaction in order to provide the basis for a sustainable and dynamic business.

How would you comment on the share performance during the past fiscal year?
Arnd Christ: In my opinion, the reason for the negative share performance is the fact that the capital market's key expectation, namely that EndoTAG®-1 would be out-licensed before the end of 2010, was not met. In the past fiscal year MediGene went through a lot of change. Our new strategy marked the start of a new direction, and we are taking our first steps in this new direction. The positive share performance at the beginning of this year indicates that shareholders' confidence in our strategy is increasing.

What is your objective for 2011?
Dr. Frank Mathias: We want to reward this renewed confidence by turning MediGene into a company from which all stakeholders, including patients, shareholders, and employees, can benefit.

»The improvement of our financial position has been our most pressing task within the defined overall strategy to bring MediGene onto a long-term growth path.«
Arnd Christ

Drug development

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

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

Drug development stages

	Research/ Preclinical	Clinical Phase I	Clinical Phase II	Clinical Phase III	Approval	Market
						
		Safety, Tolerability	Dosage, Efficay-Trends	Tolerability, Efficacy		
Chance of reaching the market[1)]	< 10 %	< 15 %	< 30 %	< 70 %	< 90 %	

10–15 Years

[1)] Industrial average, MediGene estimates

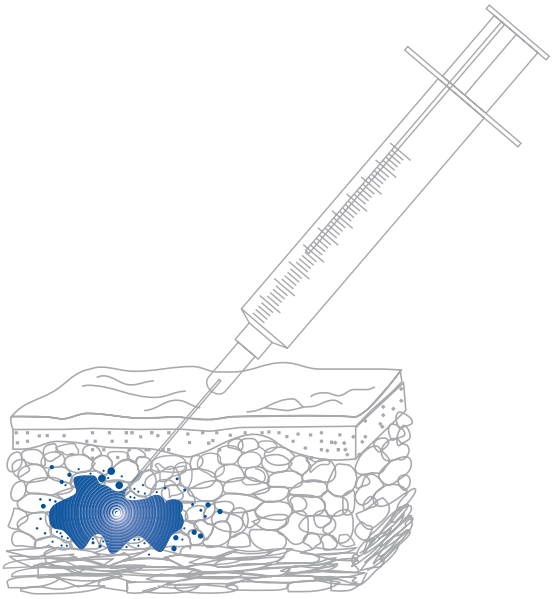
Eligard®

- Hormone therapy for prostate cancer with innovative drug delivery system
- European rights sold to Astellas Pharma for 25 million euros
- Future participation in revenue guaranteed

Eligard® was MediGene's first drug to be introduced to the market, and has been contributing to the company's increasing revenue for several years. It is a hormone compound for the treatment of advanced, hormone-dependent prostate cancer, with the active ingredient leuprolide acetate significantly reducing the level of the male sex hormone testosterone. This suppresses testosterone-dependent tumor growth. The established active ingredient is combined with a novel drug delivery system known as Atrigel® depot technology. The liquid drug is injected subcutaneously and forms a gel-like implant which slowly disintegrates. Depending on the dosage administered, the drug is steadily released over a period of one, three, or six months.

MediGene acquired the European marketing rights to Eligard® from Atrix Laboratories, Inc. (now Tolmar Inc.), and successfully brought the drug through the market approval procedure in Germany. The European market launch of Eligard® by MediGene's partner Astellas Pharma Europe, Ltd. started in 2004. Eligard® in its one-month, three-month, and six-month dosage forms is now available in most European countries. In mid-2010 MediGene sold the exclusive European marketing and distribution rights to Astellas against payment of 25 million euros and royalties on future product sales. With the sale of the Eligard® rights, MediGene no longer bears any future costs, obligations, or risks associated with the supply of Eligard® to Astellas. This includes all future procurement costs and license payments to Tolmar.

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



Outlook

Eligard® will continue to contribute significantly to MediGene's result over the coming years.

Veregen®

- High-tech product made from green tea yields increasing revenue
- Numerous sales and marketing partnerships concluded
- Market approval applications for additional countries in preparation

Veregen®, used in the treatment of external genital warts, is MediGene's first proprietary clinical development. Veregen® is already available on the US, German, and Austrian markets. Several marketing partnership agreements have been concluded for other countries in Europe, Asia, and America, and will contribute to future sales growth. Veregen® makes MediGene the first German biotech company to have a drug on the US market.

Unlike most drugs, Veregen® does not contain one single chemical agent, but an extract from green tea leaves obtained in a highly complex, predefined process. Genital warts are skin tumors in the genital and anal areas that, while benign, are painful and disfiguring. This sexually transmitted disease is caused by a number of human papillomaviruses (HPV). Genital warts are one of the fastest spreading venereal diseases worldwide.

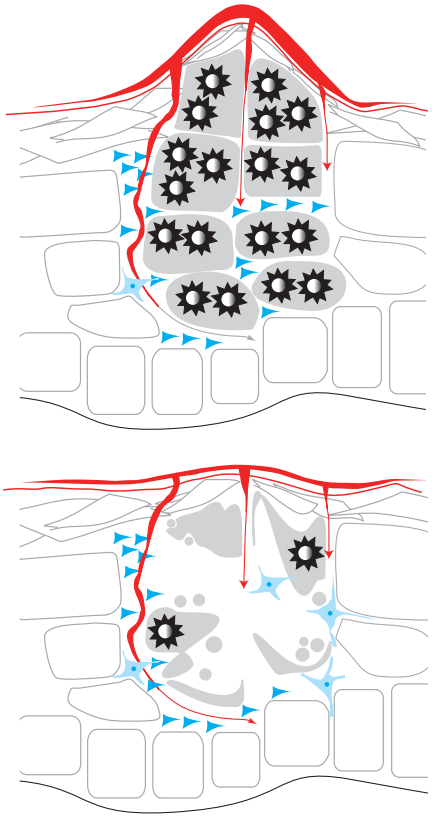
Country	Partner	Market approval	Market launch
America			
USA	Nycomed	granted	February 2009
Mexico, Central America, Venezuela, Colombia	Pierre Fabre		
Europe			
Germany	Abbott	granted	March 2010
Austria	Abbott	granted	June 2010
Switzerland	Abbott		
Spain, Portugal	Juste		
France	Expanscience		
Greece, Cyprus, Romania, Bulgaria	Meditrina		
Asia			
Israel	Teva		
China	GC-Rise		
South Korea	JS Bio Pharm		

Status February 2011

Outlook

The market approval for the drug granted in Germany, which will serve as the reference member state in a decentralized procedure, provides the basis for additional market approval applications to be submitted in other European countries within the scope of the mutual recognition procedure. MediGene intends to conclude additional marketing partnership agreements for the commercialization of Veregen® in further countries.

Changes in a skin tumor induced by Veregen®



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

EndoTAG®-1

- Drug candidate for the treatment of various types of cancer
- Inhibition of tumor blood supply suppresses tumor growth
- Proof of concept established in two clinical trials

MediGene's EndoTAG®-1 represents an innovative therapeutic approach directed against newly developed tumor blood vessels, thereby suppressing tumor growth.

EndoTAG®-1 is a formulation comprised of positively charged liposomes with the active ingredient paclitaxel embedded within. The drug candidate attaches itself selectively to newly developed, negatively charged endothelial cells in tumor blood vessels, thus attacking only the blood supply of tumors and not that of healthy tissue. By doing this, EndoTAG®-1 prevents the formation of new blood vessels in tumor tissue.

Compared to tumor cells, endothelial cells are genetically stable. MediGene assumes that due to this characteristic, EndoTAG®-1 can be used in the treatment of those tumors that have already developed a resistance to conventional paclitaxel therapy.

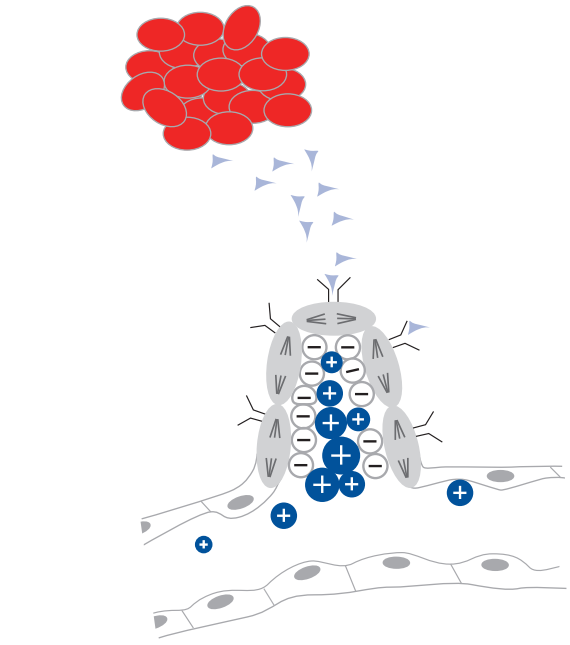
MediGene has successfully provided proof of concept of EndoTAG®-1. A controlled phase II clinical trial for pancreatic cancer showed significantly increased survival rates of those patients treated with EndoTAG®-1 and gemcitabine combination therapy. A phase II clinical trial in triple negative breast cancer also showed a positive efficacy trend of EndoTAG®-1 combination therapy.

European and US authorities have granted orphan drug designation for EndoTAG®-1. This status affords certain benefits in the development, approval, and, under certain circumstances, the commercialization of the drug.

Outlook

MediGene continues to target signing one or more partnerships for the further development and future commercialization of EndoTAG®-1.

EndoTAG®-1 attacking endothelial tumor cells



Tumor cells

Tumor releases signals inducing growth of blood vessels

Endothelial cells divide, blood vessels grow toward tumor

EndoTAG®-1 interacts with the activated tumor endothelial cells and reduces the tumor blood supply

RhuDex®

- Oral therapy for autoimmune diseases
- Preclinical trials for the optimization of the clinical development program
- Plans for out-licensing after establishment of proof of concept

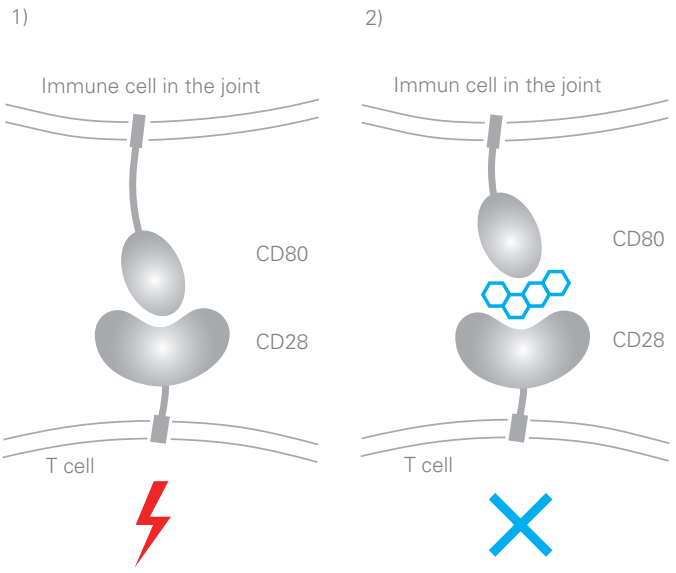
RhuDex® targets autoimmune diseases such as rheumatoid arthritis. T-cell activation is pivotal in the onset of rheumatoid arthritis. It is triggered by interaction between specific proteins on immune cell surfaces. The so-called CD80 protein plays a key role in this process. Its interaction with the CD28 protein, a receptor on the surface of T cells, is a critical step in the activation of T cells. RhuDex® has the ability to bind to CD80, thus preventing interaction with CD28 and, in doing so, interrupting an important signaling pathway of T-cell activation.

Preliminary clinical trials of RhuDex® have already been conducted. In 2010, MediGene focused on conducting additional preclinical studies in order to further narrow down the therapeutic window for RhuDex® and thus optimize the clinical development program.

Outlook

Once analysis of the preclinical data is complete, the future development strategy will be decided. MediGene intends to out-license this immunological drug candidate once proof of concept has been established, if not earlier.

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.

AAVLP vaccine technology

- Potential for prophylactic and therapeutic vaccines against cancer, infectious diseases, and other diseases
- Library allows development of a new generation of vaccines

The idea of using adeno-associated viruses (AAV) as a vaccine was developed in MediGene's laboratories. The adeno-associated virus is non-pathogenic, i.e. it does not cause disease. The virus protein shell, the capsid, is suited for the production of so-called virus-like particles (VLP), which can be used as a basis for novel vaccines.

By inserting short antigenic peptides (B-cell epitopes) into the AAV capsid, a highly specific antibody reaction against selected target molecules can be induced. These antibodies can protect the body (i.e. have a prophylactic effect) or act as a therapy against existing diseases. On the basis of AAVLP, the development of vaccines for other indications such as cancer, inflammatory diseases, neurodegenerative diseases, and allergies may also be possible. This is based on the ability of these viruses to form antibodies against the body's own proteins that cause diseases.

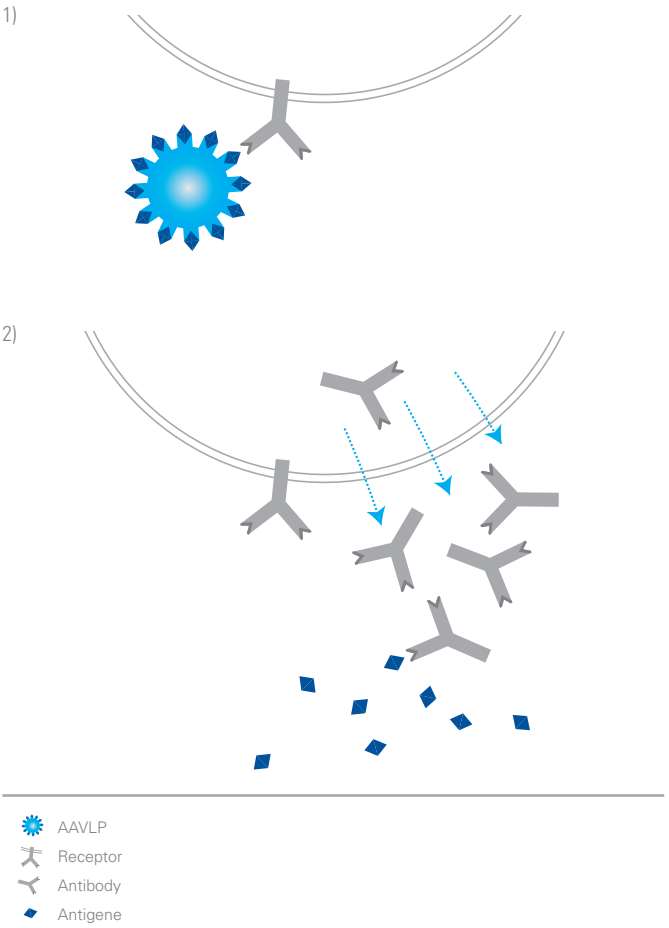
MediGene is currently conducting research into the application of AAVLP technology for the treatment of cancer and viral infections, and is examining the possibility of using AAV libraries to systematically identify suitable vaccine candidates. The key benefit of this technology is the possibility of transferring the mode of action of existing therapeutic antibodies directly into a vaccine.

In preclinical studies, AAVLP-based vaccines have shown an excellent safety profile. Therefore, they not only constitute an interesting alternative to conventional vaccines, but also may significantly widen the range of applications for vaccines against cancer and several other diseases.

Outlook

In 2011, further preclinical studies will be conducted. On the basis of these studies, MediGene will decide on the further development or strategic options for the AAVLP project.

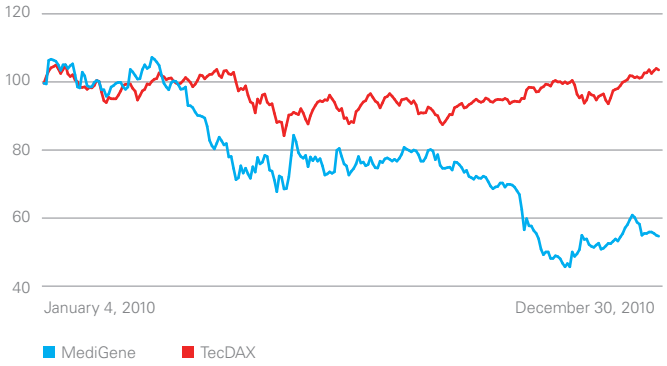
Antigenes on the AAVLP surface trigger the production of specific antibodies.



Share performance

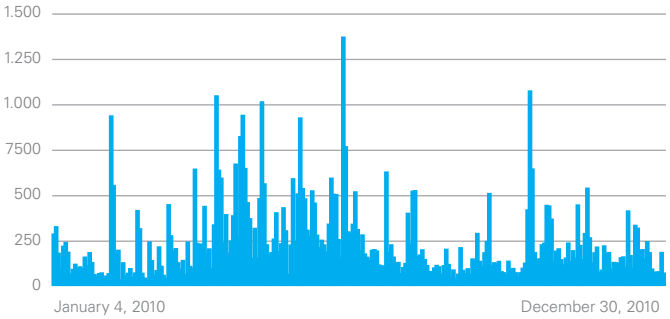
2010 share price performance

(Index opening price January 4, 2010, € 3.64 indexed to 100)



Market volume

In thousands



Share price

The MediGene share started the year 2010 at an opening price of € 3.64 on January 4. During the first quarter the share performance was parallel to the stock market, resulting in prices of about € 3.60. The yearly high of € 3.95 was reached on March 5, 2010, shortly after the announcement of the German market launch of Veregen®.

Starting at the end of March 2010, the share price began to decline in spite of a positive market environment, eventually reaching € 2.47 on May 20, 2010. Despite the results obtained in the successfully completed phase II clinical trial of EndoTAG™-1 for the treatment of triple negative breast cancer published in early May, the share price did not show lasting recovery. On June 1, 2010, a peak of € 3.01 was reached. The share price then leveled out between € 2.60 and € 3.00 from then until the end of September.

Although MediGene released more positive news regarding the sale of the European Eligard® rights to Astellas in August, the share price did not benefit much from this. Effective from September 20, 2010, MediGene was no longer listed on the TecDAX stock index due to a comparatively low market capitalization (share price multiplied by number of shares). Shortly afterwards, MediGene announced far-reaching restructuring measures which had only little impact on the share price. In mid-October, without any corporate news release, a significant downward trend began, leading to the lowest share prices for the year early in November 2010, closing at € 1.66 on November 4 and November 8, 2010. Towards the end of the year, the share rose parallel to the market, closing at € 1.99 on December 30, 2010. With a total loss of 45%, the MediGene share remained significantly behind developments on the stock market.

At the beginning of 2011, the share price recovered as a result of positive corporate news regarding new Veregen® partnership agreements.

Liquidity and index listing

The liquidity of the MediGene share was consistently high during 2010: the average daily trading volume totaled approximately 233,000 shares. On June 24, 2010, when the analysis of the phase II clinical trial of EndoTAG®-1 for triple negative breast cancer was published, the trading volume reached almost 1.4 million shares.

Until September 20, 2010, the MediGene share was listed on the TecDAX stock index of the 30 largest technology companies on the Frankfurt stock exchange. The index composition is determined on the basis of market capitalization and market volume, and is reassessed periodically.

Ownership development

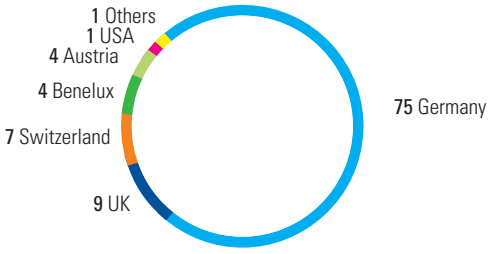
The ownership of MediGene AG shifted slightly in favor of private investors in 2010. The portion of their holdings at the end of the year totaled approximately 59% (2009: 53%). The portion of institutional investors decreased accordingly to 40% (2009: 46%). Directors' holdings remained roughly unchanged at 1%. Three quarters of the shares are still held by investors in Germany (75%), followed by the UK (9%), Switzerland (7%), Austria (4%), and the Benelux countries (4%).

Positive analyst coverage

MediGene is monitored by a number of analysts from renowned investment banks in Germany and abroad. MediGene AG and its products and technologies have been analyzed in detailed reports. At the year end of 2010, five out of six analysts issued a »buy« recommendation for the MediGene share.

Ownership information by country

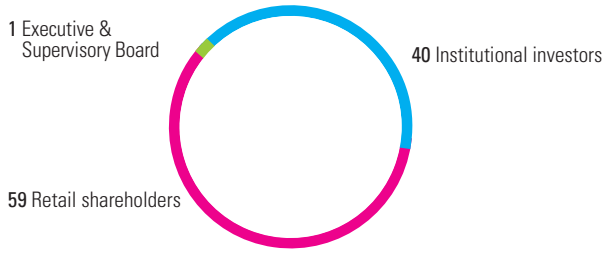
In %



As per December 31, 2010, figures rounded, data based on information from WestLB and MediGene assessment

Ownership information by type of investor

In %



As per December 31, 2010, figures rounded, data based on MediGene assessment

In 2010, MediGene presented the company at the following international investor conferences

JP Morgan Annual Healthcare Conference	San Francisco
BioEquity Europe	Zurich
Jefferies Global Life Science Conference	New York
Piper Jaffray Europe Conference	London
German Healthcare Conference	Zurich
German Equity Forum	Frankfurt

Analyst recommendations regarding the MediGene share

Buy	5
Neutral	1
Sell	0

As of December 2010, based on six analyst reports

In 2010, the following investment banks reported on MediGene

DZ Bank AG	Dr. Elmar Kraus
Landesbank Baden-Württemberg	Dr. Hanns Frohnmeyer
Nomura Code Securities Ltd.	Samir Devani
Viscardi AG	Robert Willis
WestLB AG	Dr. Cornelia Thomas
Piper Jaffray Ltd.	Richard Parkes, Michael Aitkenhead

Intensive investor relations activities

In 2010, MediGene AG continued its investor relations activities in order to keep the company's investors, the financial analysts, and the business press informed about developments at MediGene. In addition to press and analysts' conferences, MediGene gave interviews to the relevant finance media and had discussions with investors in Germany and abroad. Company presentations at renowned investor conferences underlined MediGene's presence on the international capital market.

International awards for Annual Report

In 2010, MediGene's Annual Report 2009 won awards at the two leading international competitions: at the Vision Awards of the LACP (League of American Communications Professionals) in the USA, MediGene gained the coveted »Gold Award« in the biotechnology category. At the renowned »ARC Awards International« in the USA, MediGene's Annual Report was awarded »Silver« in the biotechnology category. With these awards, MediGene was once again honored for its professional and transparent reporting to shareholders and the public.

Flexible access to additional cash

In December of 2008, MediGene closed an equity funding agreement (Standby Equity Distribution Agreement, SEDA) with the investment company YA Global Investments L.P.. Under the terms of the agreement, MediGene has the option to utilize a maximum of € 25 million cash in tranches over a period of up to 36 months, making use of YA Global Investments' commitment to subscribe to and pay for newly issued MediGene shares from authorized capital totaling up to € 25 million. It remains at the sole discretion of MediGene if and when this option is exercised during the term of the agreement. This agreement grants

MediGene flexible access to substantial additional funds. In the first six months of 2010, MediGene issued a total of 1.53 million new shares under the terms of the agreement, generating € 4.5 million in additional capital. In 2009, approximately € 6 million had already been raised from this program, which means that there is a total of about € 14.4 million still available for MediGene to utilize. MediGene does not intend to make use of this financing instrument for the time being as it is currently already in a financially sound position.

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, DAXSubsector Biotechnology
Trading floors	XETRA, Berlin, Bremen, Düsseldorf, Frankfurt, Hamburg, Hanover, Munich, Stuttgart
Designated Sponsors	DZ Bank AG, WestLB AG

Key figures of the MediGene share

In €	2010	2009
52-week high	3.92	5.31
52-week low	1.66	3.29
Opening price	3.64	4.28
Year-end closing price	1.99	3.58
Average price since beginning of the year	2.81	4.30
Weighted average number of shares	36,563,966	34,231,294
Average daily trading volume (in shares)	232,772	144,442
Average market capitalization (in € million)	103	147
Total number of shares outstanding (Dec. 31)	37,082,758	35,557,493
Dividend per share	0.00	0.00
Operating cash flow per share[1)]	-0.31	-0.53
Earnings per share[1)]	-0.49	-0.64
Shareholders' equity per share[1)]	1.10	1.46
Public float[2)] (%)	93	90

[1)] Reference amount: Total number of outstanding shares

[2)] Source: MediGene AG, Deutsche Börse

Financial information 2010

of MediGene AG

Group management's discussion and analysis

of MediGene AG, Planegg/Martinsried, Germany, as of December 31, 2010

- **Product sales:**
  - **from continued operations € 2.2 million (2009: € 1.2 million)**
  - **from discontinued operations € 47.4 million (2009: € 36.7 million)**
- **EBITDA € -12.8 million (2009: € -18.8 million)**
- **Net loss for the year € -17.9 million (2009: € -22.0 million)**
- **Average monthly operating cash burn rate € 1.0 million (2009: € 1.6 million)**

Business and overall economic conditions

Company overview

MediGene AG, Planegg/Martinsried, Germany, is a biopharmaceutical company that specializes in the research and development of innovative drugs to treat cancer and autoimmune diseases.

Organizational and legal structure of the Group

MediGene AG was founded in 1994 in Planegg/Martinsried near Munich in Germany. In 1996, the Company was converted into a stock corporation. The Company's headquarters are located at Lochhamer Straße 11, 82152 Planegg/Martinsried, Germany. The Company is registered in the Commercial Register of the Munich Local Court under HRB 115761. MediGene AG has been listed since June 2000 (Deutsche Börse, Regulated Market, Prime Standard; SIN 502090; code MDG).

In addition to MediGene AG in Planegg/Martinsried, Germany, which is the parent company, the MediGene Group includes two wholly owned subsidiaries, MediGene, Inc., San Diego, California, USA, and MediGene Ltd., Abingdon, Oxfordshire, United Kingdom. The subsidiaries were acquired in 2001 (MediGene, Inc.) and 2006 (MediGene Ltd.) respectively. The subsidiary MediGene Ltd. in turn holds 28.7% of shares in the company Immunocore Ltd., Abingdon, Oxfordshire, United Kingdom. The subsidiary MediGene, Inc. holds 40% of shares in the company Catherex, Inc., Philadelphia, Pennsylvania, USA, which was founded in 2010. In this report, the MediGene Group is referred to as »MediGene«. The Group is managed by the Executive Board of the parent company, MediGene AG. The subsidiaries' management entities report directly to the Group's Executive Board.

Segments

MediGene's business activities are comprised of the two market segments »Marketed Products« and »Drug Candidates«. The regional segmentation differentiates between the regions United Kingdom, USA, and other countries.

Management structure

The Executive Board of MediGene consists of CEO Dr. Frank Mathias and CFO Arnd Christ. Mr. Christ took over as CFO in April 2010 from Dr. Thomas Klaue upon Dr. Klaue's resignation from the Company.

Products and marketing

MediGene generates revenue from two drugs already being marketed: Eligard® for the treatment of prostate cancer, and Veregen® for the treatment of genital warts. Both drugs are marketed by partners.

MediGene also has ongoing research and development projects in the fields of oncology and immunology. The drug candidate EndoTAG®-1 has successfully undergone two phase II clinical trials for the indications pancreatic cancer and breast cancer. In 2010, the drug RhuDex® for the treatment of autoimmune diseases such as rheumatoid arthritis underwent a program of preclinical trials with the purpose of subsequently continuing clinical development. MediGene also has projects at the preclinical and research stages, in particular the AAVLP technology for the identification and development of potential vaccine candidates.

By the terms of a contract drawn up in April 2010 and with effect from December 2010, MediGene has transferred another project, the oncolytic HSV (oHSV) program, to the newly founded US company Catherex, Inc. In return, MediGene received 40% of the shares in this company and will share in its future earnings should Catherex license defined rights from the oHSV program to certain third parties.

Competitors

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

State of the product portfolio and research and development activities

Eligard®

Eligard®, a drug developed to treat hormone-dependent prostate cancer, is marketed in most European countries by MediGene's partner Astellas Pharma Europe Ltd. (hereinafter referred to as »Astellas«), Staines, Middlesex, UK. MediGene acquired a license for the European rights in 2001 from Atrix Laboratories, Inc. (now Tolmar Therapeutics, Inc., Fort Collins, Colorado, USA, hereinafter referred to as »Tolmar«) and successfully took the product through the German approval process. Since 2004, marketing of Eligard® in Europe has been the subject of a contract with MediGene's partner Astellas, who launched the drug in Europe and markets it successfully in the form of one-month, three-month, and six-month depot formulations.

In July 2010, MediGene agreed to transfer its Eligard® rights to Astellas. In return, MediGene is receiving payments totaling € 25 million and will continue to receive a share in the product's sales. Furthermore, with the transfer of rights, MediGene no longer bears any future costs, performance obligations, or risks that arise in connection with the supply of the product to Astellas; this includes the procurement costs and license fees that MediGene has hitherto had to pay to the licensor Tolmar. The contract strengthens MediGene's financial situation and opens up an opportunity for the Company to benefit from future growth in sales of the drug.

Veregen®

Veregen®, a drug to treat genital warts, was developed by MediGene AG and is now on sale in the U.S., German and Austrian markets.

A contract for marketing Veregen® exists with Nycomed US, Inc. (hereinafter referred to as »Nycomed«), Melville, New York, USA, which has been in charge of Veregen® advertising sales in the US market since 2009. MediGene receives successive single payments depending on the achievement of specific milestones and, furthermore, has a share in Veregen® revenue. MediGene earns further revenue from selling the active ingredient to Nycomed.

In 2010, Veregen® was launched in the German and Austrian markets by regional sales companies of the Abbott Group (hereinafter referred to as »Abbott«). Abbott (then Solvay) acquired the marketing rights for Germany, Austria and Switzerland from MediGene in 2009. A partnership with the Spanish company Juste S.A.Q.F. has existed since 2009 for sales in Spain and Portugal. It was followed in 2010 by partnership agreements with Teva Pharmaceutical Industries Ltd. for marketing Veregen® in Israel, Meditrina Pharmaceuticals, Ltd. for Greece and Cyprus, GC-RISE Pharmaceutical Co., Ltd. for China, and JS Bio Pharm Co., Ltd for marketing Veregen® in South Korea. At the beginning of 2011 they were joined by sales partners for France (Laboratoires Expanscience), Romania and Bulgaria (Meditrina), and Mexico, Central America, Venezuela, and Colombia (Pierre Fabre Medicament).

The approval of Veregen® in Germany will serve as a reference for the approval procedures in other European countries within the framework of the European mutual recognition procedure.

EndoTAG®-1

In 2010, MediGene completed a phase II clinical trial of the drug candidate EndoTAG®-1 for the treatment of triple negative breast cancer. The three-armed trial of 140 female patients revealed a positive efficacy trend of EndoTAG®-1 when used in combination therapy with the standard therapeutic drug. This data supplements the positive findings of a clinical phase II trial of EndoTAG®-1 for the treatment of pancreatic cancer which was completed in 2008.

In 2010, MediGene also developed a new production process for EndoTAG®-1. The new spray drying process is intended to enable the product to be manufactured at far less cost than the previous freeze-drying process.

EndoTAG®-1 has been designated an orphan drug in Europe and the United States. This designation has advantages for the development, approval, and under certain circumstances the marketing of drugs.

EndoTAG®-1 is a formulation consisting of positively charged liposomes and the active ingredient paclitaxel that is embedded in them. The drug candidate attacks activated endothelial cells in newly created blood vessels that supply the tumor which should inhibit tumor growth.

RhuDex®

RhuDex® is being developed by MediGene as an agent to treat autoimmune diseases such as rheumatoid arthritis. It is an orally available CD80 antagonist that blocks T-cell activation and thus has an immunosuppressive and anti-inflammatory effect. In 2010, MediGene undertook preclinical trials in preparation for the continuation of clinical development.

AAVLP technology

MediGene has developed an innovative technology platform for drug discovery, in the form of the AAVLP platform. It is based on adeno-associated virus-like particles (AAVLP) and could be used to develop prophylactic and therapeutic vaccines. MediGene is currently conducting research into the use of AAVLP technology to treat allergies and various types of cancer, and into the application of AAV libraries to identify suitable vaccine candidates systematically.

General conditions

Regulatory and general economic conditions

In 2010, the regulatory framework conditions relevant to the pharmaceutical industry changed as a result of legal reforms in the United States and Europe. Experts are of the opinion that the 2010 US healthcare reform will initially lead to falling revenues in the pharmaceutical industry due to the discounts imposed on drug prices, but will contribute within a few years to growth in revenues following a rise in the number of insured patients and, presumably, drug consumption (Datamonitor, March 2010). In 2010, legislation was also passed in Germany to reduce drug prices, namely the Statutory Health Insurance Restructuring Act (GKV-Änderungsgesetz/GKVÄndG) and the Drug Market Restructuring Act (Arzneimittelmarktneuordnungsgesetz/AMNOG). However, persistent cost pressures on healthcare providers may result in further legislation aimed at reducing the cost of drugs. This could affect the pharmaceutical and biopharmaceutical sectors in Europe and the USA.

2010 marked the start of a significant recovery from the economic turmoil of 2009. Germany held a leading position in the eurozone with economic growth of 3.6% (Deutsche Bank Research, January 2011).

The reference exchange rate of the euro fell from $ 1.4405 to $ 1.3380 within the 2010 reporting period. The euro also fell against the British pound from £ 0.8900 to £ 0.8625 (source: Commerzbank AG, reference exchange rates).

Grants

A preclinical research project received € 65 thousand in public funding until the end of August 2010.

Procurement

Procurement is focused on the approved drugs Eligard®, Veregen®, and drug candidates for clinical and preclinical test purposes, services, chemicals, and laboratory supplies for research and development. MediGene is intensely involved in the development and optimization of production processes for future drugs in order to efficiently organize the procurement of required ingredients at a later stage.

Procurement of drugs and drug candidates

MediGene purchases the drug Eligard® for the European market exclusively from its licensor and manufacturer Tolmar.

MediGene has a contract with Mitsui Norin Co., Ltd. (hereinafter referred to as »Mitsui Norin«), Tokyo, Japan, for the production and supply of the active pharmaceutical ingredient for Veregen®. The formulation of the ointment is carried out by a contract manufacturer in Germany by order of Nycomed for the US market and by order of MediGene for other markets. The raw material, which consists of green tea leaves, is obtained from Chinese tea farms. Mitsui Norin is responsible for monitoring the Chinese raw material suppliers.

Procurement management for research and development supplies

MediGene is not dependent on single raw materials suppliers for research and development. Rather, the Company solicits various quotes as a matter of principle and places its orders with the most advantageous supplier, taking into account quality considerations. Procurement is organized in such a way that MediGene is able to ensure that the supply is sufficiently stable and resilient in the face of possible bottlenecks or quality problems while at the same time optimizing its purchase prices. Given a price trend within the usual range, procurement costs are of secondary importance in MediGene's cost structure.

Complex demands on service providers

MediGene avails itself of extensive services primarily for the large-scale production and formulation of therapeutic active ingredients, as well as when conducting pharmacological, toxicological, and clinical trials. Outsourcing these activities ensures that MediGene is able to respond to changes in its development portfolio with the required flexibility. The demands on services of this kind are highly complex, calling for extensive expertise and experience on the part of the purchaser. Criteria for selecting partners for such projects – apart from quality and efficiency – include adherence to delivery dates, reliability, and flexibility.

Performance indicators

Financial performance indicators

MediGene's management uses revenue, EBITDA, gross revenue margin, liquidity cover ratio, and equity ratio as performance indicators for the commercial success of the Group's activities. The term EBITDA is used to describe the result for the year excluding taxes, financial result, depreciation, amortization, and impairment.

Performance indicators

		2010	2009
Gross margin as a share of total revenue from continued operations and product sales from discontinued operations	Gross profit x 100 / Total revenue	20%	20%
EBITDA		€ -12,756 thousand	€ -18,808 thousand

Asset and finance indicators

		2010	2009
Liquidity cover ratio	Cash x 100 / Balance sheet total	8%	19%
Equity ratio	Equity x 100 / Balance sheet total	70%	79%

Non-financial performance indicators

MediGene's commercial success will essentially depend on the extent to which patent protection will be obtained and maintained for its products and technologies in the respective regional target markets. MediGene's patent situation is therefore the Company's most critical non-financial performance indicator.

Patent situation

MediGene currently holds rights to a large number of patents and patent applications in the capacity of either owner or licensee:

Patents granted and scheduled to be granted

	Marketed products	Drug candidates
Europe (Germany)	6	21
USA	4	34

Pending patent applications

	Marketed products	Drug candidates
Europe (Germany)	6	26
USA	2	31
International (PCT)	3	44

Consistent patent strategy provides the basis for commercial success

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

Income position

Product sales and other income

As a consequence of the sale of the rights to Eligard®, revenue generated with the drug in 2010 is to be reported as »revenue from discontinued operations«, pursuant to IFRS 5. According to this method of portrayal, total revenue from continued operations amounted to € 2,292 thousand (2009: € 2,785 thousand), and revenue from discontinued operations amounted to € 47,398 thousand (2009: € 36,681 thousand). Revenue from continued operations was generated from the commercialization of Veregen® in the USA, Germany, and Austria, as well as from milestone payments for Veregen® and public grants received. Revenue from discontinued operations arose from Eligard® product sales and license payments received. Revenue was generated almost entirely by MediGene AG.

Consolidated income statement (abbreviated)

In € thousand	2010	2009	Change
Total revenue	**2,292**	**2,785**	**-18%**
thereof Veregen®	**2,214**	1,178	88%
Cost of sales	**-781**	-837	-7%
Gross profit	**1,511**	**1,948**	**-22%**
Selling, general, and administrative expenses	**-9,399**	-8,742	8%
Research and development expenses	**-13,494**	-18,499	-27%
Loss resulting from spin-off	**-6,212**	0	–%
Operating result from continued operations	**-27,594**	**-25,293**	**9%**
Result before tax from continued operations	**-27,177**	**-27,011**	**1%**
Taxes	**0**	-27	–%
Result from continued operations	**-27,177**	**-27,038**	**1%**
Product sales from discontinued operations	**47,398**	36,681	29%
Result from discontinued operations	**9,308**	**5,076**	**83%**
Net loss for the year	**-17,869**	**-21,962**	**-19%**

Other operating income amounted to € 78 thousand (2009: € 1,607 thousand). Of this, grants accounted for € 65 thousand (2009: € 447 thousand) and other operating income accounted for € 13 thousand (2009: € 1,160 thousand). In the previous year, other operating income consisted mainly of a compensation payment.

Revenue distribution is presented in the Notes to the consolidated financial statements D) item (28), on page 66.

Cost of sales

Cost of sales from continued operations amounted to € 781 thousand compared to € 837 thousand in the preceding year. The cost of sales incurred in connection with the commercialization of the drug Eligard® and hence from discontinued operations totaled € 39,210 thousand (2009: € 30,645 thousand). These costs arose from product procurement and Tolmar's share of the sales revenue.

Gross profit

Gross profit from continued operations totaled € 1,511 thousand (2009: € 1,948 thousand) in 2010, and gross profit from discontinued operations totaled € 8,188 thousand (2009: € 6,036 thousand). The level of gross profit is determined by the ratio of revenue from product sales to license payments, as well as by any milestone payments. Gross margins achieved from the drugs Eligard® and Veregen® depend to some degree on the euro-US dollar exchange rate.

Selling, general, and administrative expenses

Selling, general, and administrative expenses from continued operations rose year-on-year from € 8,742 thousand in 2009 to € 9,399 thousand in 2010. This amount consists of € 2,030 thousand in selling expenses (2009: € 1,810 thousand) and € 7,369 thousand in general administrative expenses (2009: € 6,932 thousand). The increase was due mainly to higher consulting costs and severance payments. Selling expenses from discontinued operations totaled € 397 thousand in the reporting period (2009: € 382 thousand).

Research & development expenses

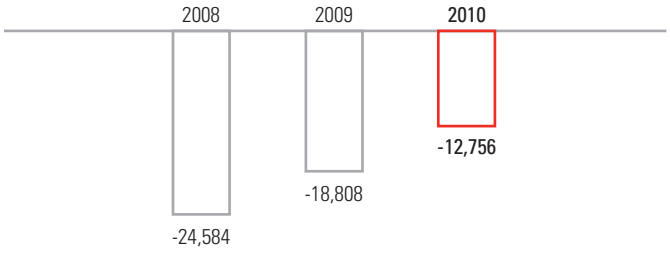
Total expenses for research and development (R&D) decreased to € 13,494 thousand (2009: € 18,499 thousand). A large part of the cost for research and development consisted of expenses for clinical trials with the drug candidate EndoTAG®-1 for the indication triple negative breast cancer. Other costs arose in connection with additional development projects. The composition of R&D expenses can be found in the Notes to the consolidated financial statements D), item (32), on page 67.

EBITDA

MediGene uses the term EBITDA to describe the result for the year excluding taxes, financial result, depreciation, amortization, and impairment. As it gives a good indication of cash flow, using this indicator instead of the EBIT figure should enable a comparison of the actual operating results before depreciation and amortization in separate periods. In 2010, MediGene reduced its EBITDA loss by 32% to € 12,756 thousand (2009: € 18,808 thousand). The portrayal of EBITDA does not require a differentiation between continued and discontinued operations.

EBITDA

In € thousand



EBITDA

In € thousand	2010	2009	Change
Net loss for the year	-17,869	-21,962	-19%
Taxes	0	27	–%
Financial result *)	**-417**	1,718	-124%
Derivative financial instrument	-1,517	578	>-200 %
Depreciation	835	831	0%
Loss resulting from spin-off	6,212	0	–%
Total	**-12,756**	**-18,808**	**-32%**

*) including share of result of associates

Depreciation, amortization, and impairment

In total, depreciation, amortization, and impairment rose from € 831 thousand in 2009 to € 10,061 thousand in 2010. Regular amortization relates to intangible assets, including patents and product licenses. Regular depreciation relates to property, plant, and equipment. The impairment of goodwill as per IAS 36 occurred in connection with derecognition of the oHSV program, which was transferred to Catherex, Inc.

Financial result

The financial result, consisting mainly of foreign currency exchange gains/losses, and an interest result, amounted to € 371 thousand (2009: € -93 thousand) in the reporting period. The financial result from discontinued operations includes a gain from the financial derivative as per IAS 39 which relates to the product Eligard®, amounting to € 1,517 thousand (2009: € -578 thousand).

Taxes

In the reporting period, neither tax expense (2009: tax expense of € 27 thousand) nor tax income was posted. The tax expense in the preceding year's reporting period arose from the correction of an R&D tax credit which was classified as a liability by the subsidiary MediGene Ltd. in 2008.

Result for the year

Compared to the preceding year's reporting period, the result for the year from continued operations before tax improved to € -27,177 thousand (2009: € -27,011 thousand), and the result from discontinued operations improved to € 9,308 thousand (2009: € 5,076 thousand). In total, the net loss for the year was reduced by 19% from € 21,962 thousand to € 17,869 thousand.

Earnings per share

Net loss per share decreased from € -0.64 in the preceding year (weighted average number of shares: 34,231,294) to € -0.49 in fiscal year 2010 (weighted average number of shares: 36,563,966). The net loss at full dilution as of the reporting date corresponded to the actual loss since the conversion of ordinary share equivalents would counteract the dilution effect.

Segments

MediGene's activities are broken down into the segments »Marketed Products« and »Drug Candidates« (see page 85 et seq. »Business units«). The segment »Marketed Products« consists of the drugs Eligard® and Veregen®. The »Drug Candidates« segment reports on MediGene's activities for the product candidates EndoTAG®-1, RhuDex®, oHSV, and a preclinical drug candidate.

Financial position

Change in cash reserves

In € thousand	2010	2009	Change
Net cash			
used by operating activities	-11,411	-18,801	-39%
used by/from investing activities	-321	226	>-200%
from financing activities	4,469	5,611	-20%
Decrease in cash and cash equivalents	-7,263	-12,964	-44%
Cash and cash equivalents at the beginning of the period	12,251	25,101	-51%
Foreign exchange differences	-218	114	>-200%
Cash and cash equivalents at the end of the period	4,770	12,251	-61%

Change in cash reserves

MediGene reduced the amount of net cash used by operating activities by 39% to € 11,411 thousand (2009: € 18,801 thousand). The largest part of the cash payments was the result of expenses for research and development, which are offset particularly by income from the commercialization of Eligard®. Other non-cash income resulted mainly from the € 3,014 thousand spent on acquiring a shareholding in the associate Catherex, Inc. The net cash used by operating activities was derived indirectly from the net loss.

The amount of net cash used for investing activities in 2010 totaled € -321 thousand (2009: € 226 thousand). In the previous year, MediGene earned € 689 thousand from the sale of QLT stock.

Investments in property, plant, and equipment, as well as in software amounted to € 321 thousand in the reporting period (2009: € 463 thousand). These investments consisted primarily of purchases of laboratory equipment and information technology. The Group did not enter into any financial lease contracts.

Net cash inflow from financing activities in the reporting period totaled € 4,469 thousand (2009: € 5,611 thousand). In the first half of 2010, MediGene generated € 4,500 thousand from capital increases as part of the SEDA (Standby Equity Distribution Agreement) with YA Global Investments L.P. (hereinafter referred to as »YA Global Investments«), Jersey City, New Jersey, USA. The cost of the capital increases and the repayment of convertible bonds were offset against this inflow.

Taking foreign exchange differences into consideration, cash and cash equivalents showed a total net decrease by € 7,481 thousand in the 2010 reporting year (2009: € 12,850 thousand). The closing balance of cash and cash equivalents in the year under review was € 4,770 thousand (2009: € 12,251 thousand). The liquidity cover ratio, calculated as the proportion of cash and cash equivalents in total assets/liabilities, was 8% (2009: 19%) as of the closing date. There were no open credit lines.

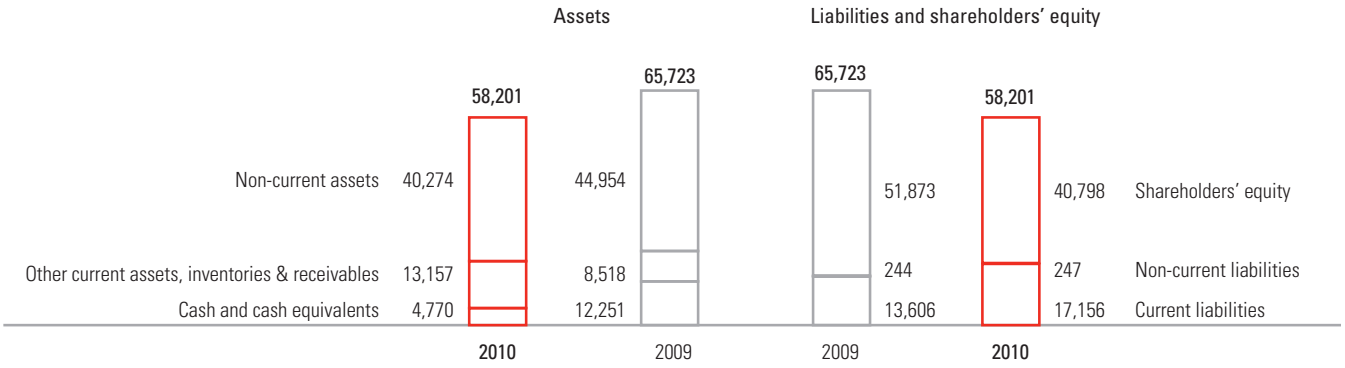
On March 3, 2011, MediGene received € 15 million in connection with the Eligard® contract with Astellas. A further € 5 million in milestone payments arising from this contract are likely to be received at the end of 2011 or early in 2012. MediGene still has € 14.4 million from the SEDA program at its disposal. It does not intend to make further use of funding from the SEDA program at this time.

Average monthly cash burn rate from operating activities

The consolidated statement of cash flows for 2010 shows an average monthly cash burn rate from operating activities of € 951 thousand (2009: € 1,567 thousand). Net cash used by operating activities is only of limited informative value with regard to future development as it is significantly influenced by one-off payments arising from partnerships and by research and development expenses, the amount of which depends on the status of projects.

Balance sheet structure

In € thousand



Assets position

Development of assets and capital structure as of Dec. 31

In € thousand	2010	2009	Change
Assets			
Property, plant, and equipment and intangible assets	**32,846**	31,566	4%
Goodwill	**2,212**	11,272	-80%
Other non-current assets	**157**	155	1%
Investment in associates	**5,059**	1,961	158%
Cash and cash equivalents	**4,770**	12,251	-61%
Inventories and receivables	**6,209**	2,204	182%
Other current assets	**6,948**	6,314	10%
Total assets	**58,201**	**65,723**	**-11%**
Liabilities and shareholders' equity			
Shareholders' equity	**40,798**	51,873	-21%
Non-current liabilities	**247**	244	1%
Current liabilities	**17,156**	13,606	26%
Total liabilities and shareholders' equity	**58,201**	**65,723**	**-11%**
Liquidity cover ratio in %	**8**	**19**	
Equity ratio in %	**70**	**79**	

Assets

Compared to the previous year, total assets decreased by 11% to € 58,201 thousand (2009: € 65,723 thousand). This decline is due mainly to a € 7,481 thousand reduction in cash and cash equivalents and to the impairment of goodwill.

Despite the regular amortization of licenses, total non-current assets rose to € 32,846 thousand (2009: € 31,566 thousand). Property, plant, and equipment accounted for € 960 thousand (2009: € 1,063 thousand). Intangible assets rose from € 30,503 thousand to € 31,886 thousand. This rise is due to the increase in intangible assets of the subsidiary MediGene Ltd. related to exchange rates. These assets include the RhuDex® project and a further project at the research stage, both denominated in British pounds. Goodwill fell from € 11,272 thousand to € 2,212 thousand as a result of the transfer of the oHSV program.

As of December 31, 2010, the Group held a 28.7% stake in the associate Immunocore Ltd. and 40% in Catherex, Inc. Following the addition of the new shareholding, the carrying amount of the two shareholdings rose to € 5,059 thousand at the end of the reporting period (2009: € 1,961 thousand).

Accounts receivable as of the end of the reporting period amounted to € 4,516 thousand (2009: € 749 thousand). This amount mainly represents receivables from Astellas.

Inventories of Eligard® and Veregen® totaled € 1,693 thousand (2009: € 1,455 thousand) as of the closing date.

Other current assets totaled € 6,948 thousand (2009: € 6,314 thousand), of which € 17 thousand (2009: € 169 thousand) were grants received, € 826 thousand (2009: € 1,033 thousand) were expenses incurred for future periods, and € 5,732 thousand (2009: € 4,683 thousand) represented deferred product and licensing sales that had not yet been billed. The remaining amount includes other current assets and rent deposits.

Liabilities and shareholders' equity

Shareholders' equity decreased to € 40,798 thousand in the reporting period (December 31, 2009: € 51,873 thousand). This decrease was due mainly to the net loss for 2010. It was offset by income from capital increases. Due to the reduction in shareholders' equity, the equity ratio also fell to 70% (December 31, 2009: 79%).

Current and non-current liabilities amounted to € 17,403 thousand (2009: € 13,850 thousand) as of the closing date; this constitutes 30% of the total assets/liabilities. Current liabilities include mainly trade payables totaling € 2,354 thousand (2009: € 2,452 thousand) other liabilities totaling € 9,488 thousand (2009: € 8,843 thousand), and deferred income totaling € 5,088 thousand (2009: € 98 thousand). The liabilities consist of outstanding invoices from Tolmar and services utilized by MediGene.

Working capital, the difference between current assets and current liabilities, has been reduced from € 7,163 thousand (2009) to € 771 thousand (2010).

Capital increases

Since December of 2008, MediGene has had an agreement (SEDA = Standby Equity Distribution Agreement) with the investment company YA Global Investments that secures up to € 25 million in additional equity for the Company on request. For a period of 36 months after the conclusion of the contract, MediGene has the option to draw down cash in tranches up to a total of € 25 million against issue of new MediGene shares from authorized capital to YA Global Investments. Whether and when the Company exercises this right during the term of the contract is at MediGene's discretion. During 2010, MediGene drew down three tranches totaling € 4.5 million under this program. A total of 1,525,265 shares were issued as part of this capital increase program. By the end of the reporting period, a total of € 10.6 million had been drawn down on the basis of this program.

Overall statement

In the 2010 fiscal year, MediGene again achieved a marked improvement in its EBITDA and net result. As a result of the restructuring measures and the sale of Eligard® rights, the Company is financially and structurally well-positioned to generate future growth.

Employees

Number of employees in the Group

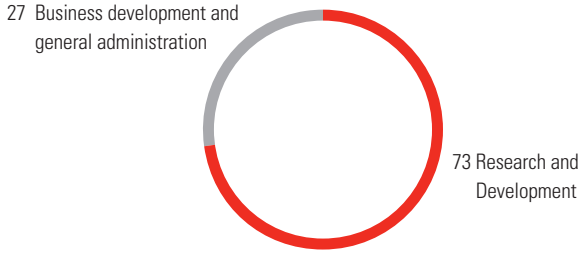
In September 2010, MediGene AG announced comprehensive restructuring measures. As part of these measures the number of employees was reduced to 63 as of January 1, 2011. As of the end of 2010, the number of employees was 92. Personnel expenses fell by 24% in the reporting period to € 9,946 thousand (2009: € 13,043 thousand). Costs totaling € 0.8 million were incurred from restructuring measures in 2010.

Employees by region as of Dec. 31

	2010	2009	Change
MediGene AG, Planegg/Martinsried	89	110	-19%
MediGene, Inc., San Diego	3	4	-25%
MediGene Ltd., Abingdon	0	0	– %
Total	92	114	-19%

Employees by area of activity

In %



as of Dec. 31, 2010

Remuneration of Executive Board and Supervisory Board

Executive Board remuneration

Remuneration of members of the Executive Board in the past fiscal year totaled € 997 thousand (2009: € 3,077 thousand), including pension expenses of € 52 thousand (2009: € 104 thousand) and vehicle leasing costs of € 22 thousand (2009: € 39 thousand). The high level of expenditure in 2009 is due mainly to bonus, severance and continued remuneration payments totaling € 1,722 thousand. In addition, stock options with a fair value of € 56 thousand (2009: € 152 thousand) were issued to the Executive Board. The amount and composition of the remuneration paid to the individual members of the Executive Board is reported in the Notes to the consolidated financial statements I), item (68), page 88.

Total Remuneration of the Executive Board members is comprised of fixed and variable components, as well as other remuneration. Variable remuneration includes annual performance-based payment and stock options. The criteria for the annual performance-based payment are established by the Supervisory Board annually in advance. Objectives geared to sustainable and long-term corporate success as well as stock options represent long-term incentives. By delaying payment of a part of the annual compensation for three years, and subsequent review and decision-making by the Supervisory Board whether and to what extent a sustainably positive corporate development can be affirmed, additional incentives for future Executive Board member employment contracts shall be created.

The Supervisory Board may reward any extraordinary accomplishments of the Executive Board members by payment of a special bonus.

Supervisory Board remuneration

Supervisory Board remuneration amounted to € 261 thousand in 2010 (2009: € 221 thousand). The total remuneration paid to the members of the Supervisory Board is comprised of a fixed portion, as well as meeting attendance fees. In addition, expenses are reimbursed. Both the chairmanship and deputy chairmanship of the Supervisory Board are taken into account in the evaluation of the Supervisory Board members' scope of activities. Remuneration paid to individual members of the Supervisory Board and disclosures regarding subscription rights of members of the Supervisory and Executive Boards are provided in the Notes to the consolidated financial statements under I), item (69) and (70), page 89 et seq.

Risk report

Risks inherent in the drug development and approval process

Industry and market risks

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

Risks of unsuccessful drug development

Prior to commercial use, MediGene's drug candidates have to pass through the preclinical development stage, followed by the individual phases of clinical trials with human subjects. These trials serve to investigate side effects and effectiveness of the drugs. Once the preclinical and clinical trials have concluded positively, the application for marketing approval can be submitted to the appropriate authorities. Once the application and the data presented have been evaluated, the authority decides whether or not to grant approval for marketing the particular product. There is a possibility that approval will be denied on the basis 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 approval. Delays in the execution of a clinical trial or in patient recruitment may result in higher costs and postpone the market launch. Results of preclinical and clinical trials are unpredictable. Equally, the results of previous trials cannot precisely predict the results of future trials.

Many pharmaceutical and biopharmaceutical companies, including MediGene, have experienced setbacks in clinical trials despite 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. Cancellation of a contract by a service provider might cause a serious delay in the execution of clinical trials and thereby prolong product development significantly. MediGene places a great deal of importance on consulting only experienced and well-known service providers to undertake clinical trials. It is, nevertheless, possible that a service provider may fail to conduct a trial properly in all respects, which could also cause delays in development.

Approval risks

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

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

Employees

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

Risks of drug commercialization

Procurement risks

MediGene purchases the drug Eligard® for the European market exclusively from its licensor and manufacturer Tolmar in the USA. In the procurement of Eligard® there is, in principle, the risk that the manufacturer will fail to supply the product.

A contract is in place with Mitsui Norin for the production and supply of the active pharmaceutical ingredient for Veregen®. The raw material, which consists of green tea leaves, is obtained from Chinese tea farmers and is subject to the usual risks inherent in agricultural products, such as crop failures caused by environmental factors or the chemical or biological contamination of harvested crops.

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

Reimbursement risks

The commercial success of drug distribution also depends on whether and to what extent the costs for the approved drug are covered by public or private health insurance providers in individual countries. In the European Union and in many other countries, there are price controls and/or other limitations on the reimbursement of drug costs. MediGene may even be forced to reduce the price of a drug in order to be included in such a reimbursement system.

Risks of low drug sales

The development and marketing of drugs are subject to fierce competition. This applies especially to the fields of autoimmune diseases and oncology, which are the focus of MediGene's activities. Given their commercial potential, these market segments are the focal point of the activities of numerous major pharmaceutical and specialized biopharmaceutical companies. MediGene's drug candidates target highly serious and/or still insufficiently treatable diseases. A successful drug would have tremendous market potential for any of these indications. If a competitor were the first to launch a product successfully, the drug developed by MediGene could become less competitive or even be placed in an inferior position, depending on the competing product's profile and sales performance. MediGene's portfolio strategy is designed to minimize sales risks, although it cannot rule them out entirely.

MediGene's products are currently marketed and sold by partner companies. There is no guarantee that these partners are able to market and sell the drugs to the extent that MediGene expects. The Company has only limited influence on the partner companies' marketing activities. This limited influence could result in adverse effects on MediGene's business activities and, therefore, its asset, financial, and income position.

The ability of MediGene or its marketing partners to sell proprietary drugs on the market can also be adversely affected by competing generic drugs. Generics are drugs launched on the market under the international non-proprietary name or a new trade name after the patent for the original drug has expired. The marketing of generic drugs can also adversely affect the marketing of MediGene's drugs.

Risks of dependence on future cooperation agreements

The Company uses the services of cooperation partners for marketing its products. These partners maintain their own sales and marketing organizations. If the Company fails to enter into cooperation agreements of this kind under favorable conditions, it could delay or hinder the Company's ability to market its products or make such activities unreasonably expensive. This could adversely affect the Company's asset, financial, and income position.

Development liability risks and product liability

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

Financial risks faced by MediGene

To date, MediGene has not generated any profits, and its future profitability is not yet assured. Since it was founded in 1994, MediGene AG has reported operating losses in every fiscal year as expenses for research and development in each year have exceeded the corresponding revenue or gross profit.

Planning risks

At least once a year, MediGene's management prepares a detailed business plan incorporating the results of portfolio management and evaluation. This plan contains numerous assumptions related to issues such as project progress, the outcome of clinical trials, the conclusion of new licensing agreements and development partnerships, development of product revenues, and general conditions within the relevant pharmaceutical market segments. These assumptions can deviate substantially from actual future developments. Prerequisites for achieving financial targets are an increase in product revenues, market approval of additional drugs, and the successful outcome of research and development activities. There is no guarantee that MediGene will achieve the product revenues, additional market approvals, and newly concluded partnerships required to meet its financial targets. MediGene's plans are based on assumptions regarding future research and development results and on estimates of the market and competitive environment. These assumptions could prove inaccurate.

Financing risks

MediGene's present shareholders' equity and operating cash flow may possibly be insufficient to cover the expected investment expenses and working capital that will be required in the foreseeable future. It is possible that MediGene will have to raise additional funds from external sources. The ability to raise additional capital depends on financial, economic, and other factors which, in the majority of cases, cannot be influenced by the Company's management. These factors also include the results achieved within MediGene's research and development activities. MediGene may not always have sufficient funds under acceptable terms and conditions at its disposal when required. Should this be the case, MediGene might be compelled to reduce its spending on research and development, production, or marketing. This could have significant adverse effects on the Company's asset, financial, and income position, and on its future prospects. So far, MediGene has always been able to raise sufficient capital to ensure the continuous financing of its operations. In order to ensure that such opportunities continue to exist, MediGene pursues intensive investor relations and public relations activities.

Foreign exchange risks

MediGene AG funds its subsidiary MediGene, Inc. If the euro loses value against the US dollar, the cost of operations in the US will increase. If, in contrast, the euro rises against the US dollar, the value of MediGene's US dollar-denominated assets has to be adjusted. Since the US site is small, the impact of foreign exchange differences from this subsidiary is relatively minor. The same applies to the British subsidiary, MediGene Ltd., the operations of which are transacted in British pounds.

To date MediGene purchased the materials for marketing Eligard® in the USA, and they were invoiced in US dollars. The drug was also sold by MediGene to its European sales partners in US dollars. The gross margin that MediGene achieved was, therefore, also subject to foreign exchange differences. Since transfer of the Eligard® rights to Astellas as from March 1, 2011, this foreign exchange risk no longer exists.

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

Environmental, health, and safety risks

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

Patent risks and legal risks

Patent risks

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

There is no guarantee that patents will not be challenged, declared invalid, or circumvented, or that they will be of commercial benefit 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 interests based on industrial property rights or cooperation, research, and license agreements.

In June 2010, a third party appealed the granting of European Patent No. EP 1530465 to MediGene AG. The patent relates to the manufacturing process for EndoTAG®-1 and to compounds that can be manufactured using this process. A first-instance ruling by the European Patent Office is anticipated in 2012 or 2013. MediGene expects the patent to be upheld to an extent that the product EndoTAG®-1 remains protected.

Legal risks

In July of 2008, following the death of a subject who participated in a trial of the drug candidate RhuDex®, the Crown Office and Procurator Fiscal Service in Edinburgh, United Kingdom, initiated a routine investigation, which was concluded in November of 2009. There is also the possibility that a civil action might be initiated on the part of the subject's family. In light of the results of the investigation concluded so far, the Executive Board considers the probability of such a suit to be extremely low.

With the exception of the aforementioned appeal proceedings, no legal disputes that could have a major influence on the Company's financial situation or that of its subsidiaries has been pending in the last twelve months, nor is there currently a threat of any such dispute.

Further legal disputes cannot be ruled out in the future.

Notes on risk management pursuant to Section 315 (II) (2) and (5) of the German Commercial Code (Handelsgesetzbuch/HGB)

Key features of the internal control and risk management system

As MediGene, the parent company, is a publicly traded stock corporation as defined in Section 264d of the German Commercial Code (HGB), a description of the key features of its internal control and risk management system in respect of the accounting processes for both the associated companies and the Group is required to be provided as per Section 315 (II) (5) of the HGB.

There is no statutory definition of the internal control and risk management system for the accounting processes for the individual companies and the Group. MediGene considers its internal control and risk management system to be comprehensive and bases its approach on the definitions provided by the Institute of Public Auditors in Germany, Düsseldorf, of internal accounting control systems (IDW PS 261 item 19 et seq.) and risk management systems (IDW PS 340, item 4). This approach defines an internal control system as consisting of the principles, procedures and measures introduced into the Company by management with the purpose of implementing management decisions in the organization. These decisions pursue the following goals:

- to assure the effectiveness and efficiency of business activities (this also encompasses asset protection, including the prevention and detection of losses),
- to ensure proper and reliable internal and external accounting and
- to comply with the legal provisions applicable to the Company.

The risk management system is the totality of all organizational regulations and measures introduced to identify and deal with the risks of entrepreneurial activity.

The Executive Board bears overall responsibility for the internal control and risk management system in respect of the accounting processes of the companies included and the Group accounting processes. All companies, divisions, and departments included in the consolidated financial statements are covered by a defined leadership and reporting organization.

MediGene has defined the following principles and implemented the following processes:

Principles, administration, and controlling

Entrepreneurial success involves taking risks and acting with the appropriate degree of responsibility. With this in mind, MediGene's management utilizes a risk management system that can be flexibly adapted to new situations and is subject to continuous review. Organizational safeguards have been established by separation of duties. Activities or business transactions that involve risk are never carried out by one employee alone – in all such cases, several persons are responsible for the decision-making process and for the decision itself. Operating procedures and workflows are standardized to ensure the consistent execution of each individual operation. IT risks are minimized by means of access restrictions and regulations for systems development and maintenance. Forms, worksheets, and laboratory journals are used to fully record and document all data. MediGene's controlling department is responsible for coordinating the planning, information supply, handling, and monitoring with the goal of meeting targets. In order to identify any deviations, projects undergo a monthly target-performance comparison, the results of which are discussed regularly with project managers and the Executive Board.

Portfolio strategy to reduce overall risk

MediGene's overall risk with regard to its success and existence as a going concern is determined primarily by the individual risks arising in clinical development, product marketing, entering into successful strategic partnerships with the pharmaceutical industry, and corporate financing. The commercial success and future existence of the Company, therefore, depend primarily on successful drug development and commercialization, as well as prevailing conditions on the capital market. MediGene counters the intrinsically high risk that individual projects might fail by maintaining a product portfolio based on different technological and scientific approaches that are independent of each other. As some products have already been successfully approved for the market and are consequently generating revenue from products and licenses, these risks are not considered to be a threat to the Company's continued status as a going concern.

Portfolio management and evaluation

MediGene's project portfolio is managed proactively and assessed at regular intervals. The management process includes drawing up development plans for each individual project. These are then adopted by a development committee and compliance with the plan is monitored by the Executive Board. The regular assessment of the individual projects is based on the analysis and evaluation of their opportunities and risks. This analysis and evaluation cover not only the technical risk, but also the intellectual property and scientific hypotheses of potential competitors. Other areas covered by the assessment are clinical development considerations, market approval conditions, process development, and portfolio strategy. Another significant element is the analysis of the current and future development of the segment of the drug market under consideration.

Results are summarized in a scenario analysis that includes a profitability assessment based on discounted cash flows. This feasibility study then provides the basis for any decision relating to MediGene's overall portfolio and future strategic orientation. MediGene is supported by internationally renowned scientists and pharmaceutical experts in its research and development activities. Such consultations are based on the most up-to-date findings from research and clinical application.

Particular attention is devoted to patent-related work. MediGene's paramount goal is to ensure comprehensive patent protection for technology platforms and products in order to protect the Company from potential competitors. MediGene does not depend on any one technology. It possesses highly diversified technology and product portfolios, both of which are safeguarded by means of far-reaching international patents, which are either pending or have been granted. In addition, cooperation with external scientific institutes, universities, and other companies provides access to state-of-the-art developments and technologies.

Business planning and forecasting

At least once a year, MediGene's management prepares a detailed business plan incorporating the results of portfolio management and evaluation. This plan contains numerous assumptions related to issues such as project progress, the outcome of clinical trials, the conclusion of new licensing agreements, development of product revenue, and general conditions within the relevant pharmaceutical market segments. These assumptions can deviate substantially from actual future developments. In order to be able to manage the Company in spite of the resulting uncertainties, a variety of scenarios are developed regarding key assumptions with the aim of securing the Company's financing over a period of at least 24 months.

Adherence to the business plan is subject to continuous monitoring. The Company is managed on the basis of monthly target-performance comparisons. Furthermore, the business plan is adjusted as soon as there are any changes in the assumptions that have been made. A monthly liquidity and equity capital plan is also drawn up.

Quality assurance

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

Accounting control system

We consider those features of the internal control and risk management system that can significantly influence Group reporting and the overall statement in the consolidated financial statements including the Group management's discussion and analysis to be key with regard to the accounting processes of the companies included in the Group and the Group accounting processes. They include, in particular, the following elements:

- Identification of key risk zones and controlling areas relevant to the Group-wide accounting process;
- Checks to monitor the Group-wide reporting system and its findings at the divisional and departmental levels and at the companies included in the consolidated financial statements;
- Control measures for the finances and accounting of the Group and of those companies, units, and divisions included in the consolidated financial statements that generate information that is fundamental to the preparation of the consolidated financial statements, including the Group management's discussion and analysis; this information includes the separation of duties and pre-defined approval processes in the relevant divisions;
- Internal checks of the consolidated internal accounting control and risk management system;
- Moreover, the Group has implemented a risk management system for Group-wide accounting that includes measures to identify and assess major risks, as well as measures designed to limit such risks, in order to ensure that the consolidated financial statements are properly prepared.

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 stringent statutory requirements but also strives to keep its laboratory facilities and equipment state-of-the-art. In order to monitor compliance with regulatory requirements, MediGene has appointed in-house officers for biological safety, waste management, and safety, as well as a project manager per the German Genetic Engineering Act (GenTG), all of whom are experienced employees trained specifically for their specialist tasks. MediGene also employs a safety specialist who has been trained in accordance with the guidelines of the statutory employers' liability insurance scheme for the chemical industry.

MediGene's laboratory systems are serviced on an ongoing basis and are continuously maintained and expanded. MediGene enlists the help of external service providers to ensure that all accumulated waste materials are properly sorted and disposed of professionally or recycled in accordance with requirements. In order to guarantee safety at work for each laboratory employee, the safety engineer analyzes hazards and conducts training sessions. In addition, preventive medical check-ups are carried out at regular intervals. MediGene complies with all key requirements in respect of environmental protection and health and safety; the Group holds the requisite authorizations and permits. The Company has passed all random inspections and tests carried out by the various authorities to date without any relevant objections.

Explanatory management report on the Statements in accordance with Sections 289 (IV) and 315 (IV) of the German Commercial Code (HGB)

The Executive Board has provided statements for the 2010 fiscal year pursuant to Sections 289 (IV) and 315 (IV) of the German Commercial Code (HGB) in the Management's discussion and analysis (MD&A) for MediGene AG and the Group MD&A, and has issued the following explanations with regard to them:

1: Composition of subscribed capital

The Company's share capital amounts to € 37,082,758.00 and is divided into 37,082,758 registered ordinary shares (no-par-value shares) with a proportional share in capital of € 1.00. The shareholders of MediGene AG are recorded in the share register. All shares guarantee the same rights. Every share guarantees a vote at the Annual General Meeting and the same profit share.

2: Restrictions on voting rights or transfer of shares

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

3: Investments in capital exceeding 10% of the voting rights

The Company has not been notified of any direct or indirect investments in the share capital of MediGene AG that would lead to 10% of voting rights being exceeded.

4: Shares that grant special control privileges

The Company has not issued shares that grant special control privileges.

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

Employees holding a share in the capital of MediGene AG exercise their control rights directly like any other shareholder in accordance with the law and the Articles of Incorporation. In the event that employees hold a share in the capital and do not directly exercise their right of control, control rights are deemed to have not been exercised.

6: Statutory provisions and stipulations in the Articles of Incorporation on the appointment and dismissal of members of the Executive Board and amendments to the Articles of Incorporation

The Executive Board of the Company, in accordance with Section 7 (I) of the Articles of Incorporation, consists of one or more persons and is appointed, in accordance with Section 84 (I) of the German Stock Corporation Act (AktG), by the Supervisory Board for a period of no more than five years. Reappointments or term extensions are permissible, in each case for a maximum period of five years. The Supervisory Board appoints one of the members of the Executive Board as Chief Executive Officer. In accordance with Section 84 (III) of the German Stock Corporation Act (AktG), the Supervisory Board is also responsible for revoking such appointment.

Provisions regarding amendments to the Articles of Incorporation are contained in Sections 179 and 133 of the German Stock Corporation Act. Under these provisions, any amendment to the Articles of Incorporation requires a shareholders' resolution for which a simple majority is needed and which at least three quarters of the capital represented at the time of the resolution should approve, unless the Articles of Incorporation specify a different capital majority. Section 18 (I) of the Company's Articles of Incorporation stipulates that shareholders' resolutions should be adopted by a simple majority of the votes cast, unless a larger majority is compulsory under law. This would be the case when, for example, setting up authorized capital (Section 202 (II) (2) (2) of the German Stock Corporation Act (AktG)) or conditional capital (Section 193 (I) (1) of the Act) and issuing non-voting preferred shares (Section 182 (I) (1) and (2) of the Act), each of which requires a three-quarters majority of the capital represented at the vote on the resolution. The Supervisory Board has the right to make amendments to the Articles of Incorporation, provided they affect only the wording.

7: Powers of the Executive Board, especially with regard to the issuance or repurchase of shares

The Executive Board manages the Company on its own authority in accordance with Section 76 (I) of the German Stock Corporation Act (AktG), and represents the Company in and out of court in accordance with Section 78 (I) of the Act.

a) Authorized capital

The Executive Board is authorized – with the approval by the Supervisory Board – by a shareholders' resolution dated May 11, 2010 to increase the share capital by a total of up to € 18,066,102.00 (approximately 49.5% of the share capital at the date of the shareholders' resolution) until May 10, 2015 by issuing up to 18,066,102 new registered shares (no-par-value shares) on one or more occasions against payment in cash or in kind (2010/I authorized capital). This authorization can be used in partial amounts. The Executive Board, with the approval of the Supervisory Board, is authorized to stipulate the further content of share rights and the conditions of issuing shares. Due to the issuance of 588,235 new registered no-par-value shares against cash or kind, a further 17,477,867 new no-par shares against cash with a total value of € 17,477,867.00 were still available to be issued as authorized capital as of December 31, 2010.

b) Conditional capital

The Company's share capital was increased conditionally through a number of conditional capital items on December 31, 2010 by up to € 14,318,510.00 overall, divided into up to 14,318,510 ordinary shares overall (approx. 38.61% of share capital).

This concerns the following individual conditional capital items: conditional capital I of up to € 136,897.00 (1997), conditional capital II of up to € 106,429.00 (1998), conditional capital III of up to € 125.00 (2000), conditional capital IV of up to € 13,770.00 (2000), conditional capital V of up to € 652,329.00 (2000 and 2001), conditional capital VI of up to € 3,000.00 (2000), conditional capital VIII of up to € 3,000.00 (2001), conditional capital X of up to € 3,000.00 (2002), conditional capital XI of up to € 1,400.00 (2003), conditional capital XII of up to € 498,560.00 (2003), conditional capital XVI of up to € 300,000.00 (2006), conditional capital XVIII of up to € 1,600,000.00 (2007), and conditional capital XXI of up to € 11,000,000.00 (2010).

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

The purpose of the conditional capital items is:

a) In the case of conditional capital I, II, V, XII, XVI, and XVIII, exclusively to issue new shares to the holders of option or conversion rights which were issued within the scope of employee and management stock option programs by the Company to members of its Executive Board, members of the management of affiliated companies in Germany and abroad, to employees of the Company, and to employees of affiliated companies in Germany and abroad;
b) In the case of conditional capital III, exclusively to exploit conversion rights arising from profit sharing bonds issued to Deutsche Ausgleichsbank Technologie-Beteiligungs-Gesellschaft mbH;
c) In the case of conditional capital IV, exclusively to exploit conversion rights arising from contracts with IKB Nachrangkapital GmbH and Deutsche Ausgleichsbank Technologie-Beteiligungs-Gesellschaft mbH;
d) In the case of conditional capital VI, VIII, X, and XI, exclusively to issue shares to the holders of convertible bonds which were issued to members of the Supervisory Board in accordance with the provisions of the shareholders' resolutions of May 15, 2000, May 23, 2001, May 22, 2002, and June 4, 2003;
e) in the case of conditional capital XXI, exclusively to issue new shares to the holders of conversion rights and options issued in accordance with the provisions of the shareholders' resolution of May 11, 2010.

Notes on authorized and conditional capital:

The authorizations of the Executive Board to issue new shares from authorized capital and the conditional capital items in connection with the associated resolution for issuing convertible or warrant-linked bonds, both outlined above, are intended to enable the Executive Board to cover any need for capital that may arise and to take advantage of attractive financing options depending on the state of the market. The ability to pay for the acquisition of holdings in enterprises or the acquisition of enterprises or enterprise parts in individual cases by issuing shares of the Company to the vendor allows the Company to expand without burdening its cash position. The issue of stock options secured by conditional capital is a component of the remuneration of employees and Executive Board members in German stock corporations.

c) Buyback of shares

The Executive Board may, in the cases mentioned in Section 71 (I) of the German Stock Corporation Act (AktG), acquire its own shares in the Company. The Executive Board is not currently authorized to repurchase its own shares pursuant to Section 71 (I) (8) of the German Stock Corporation Act (AktG). The Company does not hold any treasury shares at the moment.

8: Significant Company agreements that are conditional upon a change of control as a result of a takeover bid

No such arrangements exist.

9: Compensation agreement with members of the Executive Board or employees in the event of a takeover bid

The contract of employment for Executive Board member Dr. Frank Mathias, who has been an Executive Board member since April 1, 2008 and Chief Executive Officer since April 29, 2009, includes special termination rights for both the Company and Dr. Mathias, applicable in case of change of control.

A change in control within the meaning of the contractual agreement exists in case of direct or indirect purchase of Company shares by a third party, resulting in the third party holding directly or indirectly at least 30% of the Company's voting rights, or more than 50% of the voting rights present on average at the Company's Annual General Meetings during the past three calendar years within the meaning of Section 30 of the German Securities Acquisition and Takeover Act (WpÜG).

In the case of change in control, the Company is entitled to special termination rights for a period of one year following the date of change in control.

The Executive Board member Dr. Frank Mathias is entitled to special termination rights for the period of one year after the time of the change of control, if this change results in an unacceptable shift in his previous duties and responsibilities (budget, number of employees supervised, and his role on the Board) or if the Company informs him that his appointment will not be renewed and denial of such extension is not based on significant cause justifying extraordinary termination for which he bears responsibility.

If the term of office of Executive Board member Dr. Frank Mathias comes to an end as a result of the Company exercising its special termination right referred to above, he will be entitled to receive severance payment in the amount of the gross remuneration up to the regular end of his contract, a pro rata temporis gross bonus (without stock options) up to the regular end of the contract term on the basis of the average annual bonus of the past three full years prior to termination of employment, and a lump-sum payment amounting to 2.5 times the annual remuneration owed to him (without stock options). This lump-sum payment may exceed neither the sum of three times the total annual remuneration plus the average annual bonus agreed at the time of the termination of employment, 1.5 times the remuneration anticipated for the remaining term of the employment contract, nor the sum of € 750,000.00 (cap). The Company's Supervisory Board, however, may at its own discretion waive the last-mentioned cap in recognition of Dr. Mathias' special achievements and extraordinary commitment within the situation leading to this special termination.

In the event that Executive Board member Dr. Frank Mathias resigns under the special termination conditions listed above, he will be entitled to receive a severance payment in the amount of three times the gross monthly sum for every completed year of his membership on the Company's Executive Board. The gross monthly amount is comprised of one twelfth of the gross remuneration at the time of resignation and one twelfth of the average annual bonus. The severance payment may exceed neither the total of 36 gross monthly salary payments, 1.5 times the remuneration anticipated for the remaining term of the employment contract, nor the sum of € 750,000.00 (cap). The Company's Supervisory Board, however, may at its own discretion waive the last-mentioned cap in recognition of Dr. Mathias' special achievements and extraordinary commitment within the situation leading to this special termination. The minimum severance payment amounts to six gross monthly salaries.

Statement on corporate governance

The statement on corporate governance pursuant to Section 289a of the German Commercial Code (HGB) is publicly available at the Company's website http://www.MediGene.de/E_corporate_governance_erklaerung. It also forms a part of the Corporate Governance Report on page 100 et seq. of this Annual Report.

Major events since the end of the reporting period

The following major events in corporate development occurred in 2011 up to now:

Conclusion of further marketing partnerships for Veregen®

Early in 2011, MediGene opened up new markets for the drug Veregen® by concluding a number of marketing partnerships agreements. These agreements were concluded with Laboratoires Expanscience for France, Meditrina Pharmaceuticals Ltd. for Romania and Bulgaria, Pierre Fabre Medicament for Mexico, Central America, Venezuela, and Colombia as well as Will-Pharma for Belgium, the Netherlands and Luxembourg.

Transfer of Eligard® rights for EU countries to Astellas

Effective from March 1, 2011, MediGene transferred the exclusive rights to Eligard® for the EU member states to Astellas. On March 3, 2011, the second payment agreed in the contract concluded in July 2010 was made to MediGene, amounting to € 15 million. Since March 1, 2011, MediGene is entitled to a two percent participation in Eligard® net sales. For MediGene AG, all future costs and obligations associated with the supply of Astellas with Eligard® have ceased.

Opportunities and outlook

This outlook covers the 2011 and 2012 fiscal years.

General economic conditions

According to an assessment by the European Central Bank (December 2010 monthly report), the international economic recovery of 2010 will continue in 2011, albeit at a slower pace. These assessments predict global growth overall to be fairly restrained compared with most post-recession phases of recovery in the past. Economic growth in Germany was forecast by the German Central Bank (December 2010 monthly report) to average two percent in 2011.

Anticipated developments in the pharmaceutical and biopharmaceutical industry

The international pharmaceutical market could achieve sales growth of 5 to 7 percent, according to IMS Health (IMS Market Prognosis, October 2010), although growth in the USA and Europe will remain below this level. Estimates by industry experts for the years ahead assume that growth in the pharmaceuticals sector will slow down as a result of expiring patents and austerity measures in the healthcare system (IMS Market Prognosis, October 2010, Datamonitor, January 2011).

Companies with specific biopharmaceutical products and drugs that are not subject to much competition from generics or serve niche indications are forecast to achieve above-average growth (Datamonitor, January 2011).

Continuing cost pressure on healthcare providers could lead to further legislation to reduce the cost of drugs. This could also affect the biopharmaceutical industry in Europe and the USA.

Products on the market

The following developments are expected in the Marketed Products segment:

Eligard® – Transfer of rights and continued participation in revenues

Effective from March 1, 2011, MediGene transferred the rights to market the cancer drug Eligard® in the European Union countries to its marketing partner Astellas. The transfer of rights for non-EU countries is likely to follow by the end of 2011 or early in 2012. Both events involve milestone payments. From the transfer date onward, MediGene will receive a significantly lower percentage of revenues from the sales of the product Eligard® achieved by Astellas compared to the preceding year. However, MediGene will still benefit from the anticipated further growth in the market share achieved by Eligard® in Europe.

Veregen® – Approval applications and partnerships planned in further countries

In 2011, MediGene plans to submit applications for the market approval of Veregen® in more European countries. The German market approval already granted will serve as a reference within the framework of the mutual recognition procedure. MediGene has also set for itself the target of concluding new marketing partnerships in Europe and other regions and has already concluded several contracts in early 2011. MediGene anticipates further growth in Veregen® sales.

Development projects

The following targets have been set for the Drug Candidates segment:

EndoTAG®-1 – Activities for entering into development and marketing partnerships

MediGene aims to enter into one or more partnerships with drug or biopharmaceutical companies for EndoTAG®-1. The Company envisions the partner or partners taking over the drug candidate's further development and subsequent marketing.

RhuDex® – Preclinical trials as a basis for resumption of clinical development

Once the results of the preclinical trial program have been obtained and analyzed, MediGene will decide on its further development strategy. The Company aims to out-license this immunological drug candidate no later than once proof of concept has been provided.

AAVLP technology – Preclinical trials for further validation

Further preclinical trials are to be undertaken in 2011 in connection with MediGene's AAVLP vaccine technology. On the basis of these studies, MediGene will decide on the further development or strategic options for the AAVLP project.

Objectives achieved in 2010:

Expectations for 2010		Status end of 2010
Marketed Products		
Eligard®	Further increase in product sales	Achieved
Veregen®	Market launch in Europe	Achieved
	Conclusion of additional marketing partnerships	Achieved
	Submission of additional market approval applications in Europe	In preparation
Drug Candidates		
EndoTAG®-1	Conclusion of one worldwide or several regional development and marketing partnership agreements for USA and Europe	Partnering activities ongoing
	Publication of results obtained in phase II clinical trial in triple negative breast cancer	Achieved
RhuDex®	Preparation of resumption of clinical development	Preclinical trials ongoing
oHSV	Out-licensing or spin-off	Achieved

Objectives and forecast:

Objective		Scheduled date
Marketed Products		
Eligard®	Transfer of rights to Astellas and receipt of milestone payments associated with it	March 1, 2011 (EU countries) End of 2011/early in 2012 (countries outside EU)
Veregen®	Submission of additional market approval applications in Europe	2011
	Conclusion of additional marketing partnerships	2011
	Further increase in product sales	2011
Drug Candidates		
EndoTAG®-1	Conclusion of one or more development and marketing partnership agreements	Date not specified
RhuDex®	Decision about future development strategy	2011
AAVLP technology	Further validation through preclinical trials	2011
Strategy		
Drug pipeline	Extension	Date not specified

Financial outlook for 2011 and 2012

Positive result anticipated for 2011;
Eligard® disposal will lead to decrease in revenue.

In 2011, MediGene expects a decrease in revenue due to the sale of the Eligard® rights, and expects total revenue from continued and discontinued operations of € 32 to 38 million, including one-time special factor milestone payments of € 20 to 25 million for Eligard®. Based on its present product portfolio, however, MediGene expects a positive EBITDA result of € 10 to 16 million for the first time in 2011. On this basis, MediGene expects a balanced result in 2012. In case MediGene achieves the intended drug pipeline extension, the financial forecast will be adjusted accordingly.

Based on current business planning and scenarios developed on the basis of this planning, the MediGene management expects the Company's funding to be secured beyond the end of 2012.

MediGene assumes that the number of employees will remain relatively stable during the current year.

Currently, no major individual investments in property, plant, and equipment (> € 100 thousand) are planned in 2011 and 2012. The expenses for research and development will continue to be the largest cost pool.

Future procurement

Until complete transfer of the rights to Astellas as from March 1, 2011, MediGene had purchased the drug Eligard® for the European market from Tolmar. MediGene will continue to obtain Veregen® for both the US and other markets in 2011 from contract manufacturers in Japan and Germany.

Dividends

In view of the current income position, MediGene will not distribute any dividends. MediGene pursues the concept of residual dividend distribution. Under this approach, dividends are paid whenever a 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 available funds in the development of drugs. For this reason, no distribution of dividends can be expected for the time being.

The Executive Board

Planegg/Martinsried, Germany, March 16, 2011
MediGene AG

Dr. Frank Mathias
Chief Executive Officer

Arnd Christ
Chief Financial Officer

Consolidated income statement

of MediGene AG for the periods from January 1 to December 31, 2010 and 2009

In € thousand	Note	2010	2009
Product sales		2,214	1,178
Other operating income		78	1,607
Total revenue	(28)	**2,292**	**2,785**
Cost of sales	(29)	-781	-837
Gross profit		**1,511**	**1,948**
Selling expenses	(30)	-2,030	-1,810
General and administrative expenses	(31)	-7,369	-6,932
Research and development expenses	(32)	-13,494	-18,499
Loss resulting from spin-off	(36)	-6,212	0
Operating result		**-27,594**	**-25,293**
Interest income	(33)	26	129
Interest expense	(33)	-1	-5
Income from financial assets	(33)	0	302
Foreign exchange gains/losses	(33)	346	-519
Share of result of associates	(37)	46	-1,625
Result from continued operations before tax		**-27,177**	**-27,011**
Taxes	(54)	0	-27
Result from continued operations		**-27,177**	**-27,038**
Product sales from discontinued operations	(28)	47,398	36,681
Cost of sales from discontinued operations	(29)	-39,210	-30,645
Selling expenses from discontinued operations	(30)	-397	-382
Gains/losses from derivative financial instruments from discontinued operations	(33)	1,517	-578
Result from discontinued operations		**9,308**	**5,076**
Net loss for the year		**-17,869**	**-21,962**
Earnings per share:			
Actual and fully diluted from continued operations in €	(34)	-0.74	-0.79
Actual and fully diluted from discontinued operations in €	(34)	0.25	0.15
Actual and fully diluted loss net of tax in €	(34)	-0.49	-0.64
Weighted average number of shares outstanding	(34)	36,563,966	34,231,294

Consolidated statement of comprehensive income

of MediGene AG for the periods from January 1 to December 31, 2010 and 2009

In € thousand	Note	2010	2009
Net loss for the year		**-17,869**	**-21,962**
Exchange differences on translation of foreign operations*)	(52)	1,022	2,079
Unrealized gains on hedge of a net investment*)	(52)	1,029	808
Available-for-sale financial assets*)	(52)	1	0
Other comprehensive income for the year, net of tax		**2,052**	**2,887**
Total comprehensive income for the year, net of tax		**-15,817**	**-19,075**

*) No income tax effects were incurred.

Consolidated balance sheet

of MediGene AG as of December 31, 2010 and 2009

Assets

In € thousand	Note	Dec. 31, 2010	Dec. 31, 2009
A. Non-current assets			
I. Property, plant & equipment	(42)	960	1,063
II. Intangible assets	(43)	31,886	30,503
III. Goodwill	(39)	2,212	11,272
IV. Financial assets	(44)	153	152
V. Investment in an associate	(45)	5,059	1,961
VI. Other assets		4	3
Total non-current assets		40,274	44,954
B. Current assets			
I. Inventories	(46)	1,693	1,455
II. Trade accounts receivable	(47)	4,516	749
III. Cash and cash equivalents	(48)	4,770	12,251
IV. Other current assets	(47)	6,948	6,314
Total current assets		17,927	20,769
Total assets		58,201	65,723

Liabilities and shareholders' equity

In € thousand	Note	Dec. 31, 2010	Dec. 31, 2009
A. Shareholders' equity			
I. Subscribed capital	(49)	37,082	35,557
Number of shares issued and outstanding			
Dec. 31, 2009: 35,557,493			
Dec. 31, 2010: 37,082,758			
II. Additional paid-in capital	(50)	343,704	340,487
III. Accumulated deficit	(51)	-333,098	-315,229
IV. Other reserves	(52)	-6,890	-8,942
Total shareholders' equity		40,798	51,873
B. Non-current liabilities			
I. Financial liabilities		2	9
II. Pension obligations	(53)	245	235
Total non-current liabilities		247	244
C. Current liabilities			
I. Trade accounts payable	(55)	2,354	2,452
II. Derivative financial instruments	(56)	226	1,743
III. Other current liabilities	(55)	9,488	8,843
IV. Accruals	(57)	0	470
V. Deferred income	(58)	5,088	98
Total current liabilities		17,156	13,606
Total liabilities		17,403	13,850
Total liabilities and shareholders' equity		58,201	65,723

Consolidated statement of cash flows

of MediGene AG for the periods from January 1 to December 31, 2010 and 2009

In € thousand	2010	2009
Cash flows from operating activities		
Net loss for the year (before tax)	-17,869	-21,935
Adjustments to reconcile net loss before tax to net cash used by operating activities:		
Stock-based compensation	264	394
Other non-cash income	-3,014	0
Depreciation and impairment	10,061	831
Loss on disposal of sale of property, plant & equipment	273	0
Gain on financial assets	0	-291
Interest income	-26	-129
Interest expense	1	5
Changes in:		
Inventories	-239	730
Other assets and prepaid expenses	-4,402	1,825
Trade accounts payable	-98	-8,044
Accruals	-470	14
Other liabilities and deferred income	4,129	6,077
Taxes	0	-27
Share of result of associates	-46	1,625
Subtotal	**-11,436**	**-18,925**
Interest received	26	129
Interest paid	-1	-5
Net cash used by operating activities	**-11,411**	**-18,801**
Cash flows from investing activities		
Purchase of property, plant & equipment	-321	-463
Disposal of financial assets	0	689
Net cash from/used by investing activities	**-321**	**226**
Cash flows from financing activities		
Proceeds from capital increase	4,500	6,100
Expenses on capital increase	-22	-452
Repayment of convertible bonds	-9	-37
Net cash from financing activities	**4,469**	**5,611**
Decrease in cash and cash equivalents	**-7,263**	**-12,964**
Cash and cash equivalents at the beginning of the year	12,251	25,101
Foreign exchange differences	-218	114
Cash and cash equivalents at the end of the year	**4,770**	**12,251**

Consolidated statement of changes in shareholders' equity

of MediGene AG for the periods from January 1 to December 31, 2010 and 2009

	Subscribed capital	Capital reserve	Accumulated deficit	Currency translation	Hedge of a net investment	Financial assets	Total shareholders' equity
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Balance at Jan. 1, 2009	**34,029**	**335,973**	**-293,267**	**-9,992**	**-1,837**	**0**	**64,906**
Net loss for the year			-21,962				-21,962
Unrealized gains on hedge of a net investment					808		808
Currency translation adjustments				2,079			2,079
Comprehensive income							**-19,075**
Shares issued	1,528	4,572					6,100
Expenses on shares issued		-452					-452
Stock-based compensation		394					394
Balance at Dec. 31, 2009	**35,557**	**340,487**	**-315,229**	**-7,913**	**-1,029**	**0**	**51,873**
Balance at Jan. 1, 2010	**35,557**	**340,487**	**-315,229**	**-7,913**	**-1,029**	**0**	**51,873**
Net loss for the year			-17,869				-17,869
Unrealized gains on hedge of a net investment					1,029		1,029
Net gain on available-for-sale financial assets						1	1
Currency translation adjustments				1,022			1,022
Comprehensive income							**-15,817**
Shares issued	1,525	2,975					4,500
Expenses on shares issued		-22					-22
Stock-based compensation		264					264
Balance at Dec. 31, 2010	**37,082**	**343,704**	**-333,098**	**-6,891**	**0**	**1**	**40,798**

Notes to the consolidated financial statements

of MediGene AG, Planegg/Martinsried, Germany, for the fiscal year 2010

A) Description of business activity, information about the Company

MediGene AG, Planegg/Martinsried, Germany, is a biopharmaceutical company that specializes in the research and development of innovative drugs to treat cancers and autoimmune diseases.

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

MediGene AG was founded in 1994 in Planegg/Martinsried near Munich, Germany, with share capital of € 26 thousand. In 1996, the company was converted into a stock corporation. Its headquarters are located at Lochhamer Straße 11, 82152 Planegg/Martinsried, Germany. The company is registered in the Commercial Register of the Munich Local Court under HRB 115761. MediGene AG has been listed since June 2000 (German Stock Exchange, Regulated Market, Prime Standard; SIN 502090; code MDG). From February 9, 2009 until September 20, 2010, the MediGene AG share was listed in the TecDAX selection index of German Stock Exchange.

In addition to the parent company, MediGene AG in Planegg/Martinsried, Germany, the MediGene Group includes two wholly owned subsidiaries, MediGene, Inc., San Diego, California, USA, and MediGene Ltd., Abingdon, Oxfordshire, United Kingdom. The subsidiaries were acquired in 2001 (MediGene, Inc.) and 2006 (MediGene Ltd.), respectively. In addition, MediGene has held 39.09% of the shares in the associate Immunocore Ltd., Abingdon, Oxfordshire, United Kingdom, since September 30, 2008. Due to new shares in Immunocore Ltd. being issued, MediGene's share of the company's stock fell to 28.7% as of September 30, 2010. Since mid-April 2010, MediGene, Inc. has held a 40% stake in the newly founded company Catherex, Inc., Philadelphia, Pennsylvania, USA. The MediGene Group is referred to in this report as either »MediGene« or the »Group«.

B) Accounting and valuation principles

(1) Basic principles for preparing the consolidated financial statements

The consolidated financial statements are basically prepared using the historical cost principle. Exceptions to this rule are available-for-sale financial assets, derivative financial instruments, and assets acquired in the course of business combinations. The consolidated annual financial statements are prepared in German and in euro. All figures are rounded to the nearest thousand euro (€ thousand) unless otherwise stated.

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

As a publicly-traded parent company within the meaning of Article 4 of Regulation (EC) No. 1606/2002, the Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union.

The company's Executive Board is of the opinion that the consolidated financial statements reflect all of the business transactions required to present the asset, financial, and income position as per the periods ending on December 31, 2009 and 2010 respectively. Additionally, these consolidated financial statements meet the requirements of Section 315a of the German Commercial Code (HGB).

The consolidated financial statements of MediGene AG for the fiscal year ending on December 31, 2010 were approved for publication by a resolution of the Executive Board on March 16, 2011.

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

MediGene has not made any changes to accounting and valuation methods beyond the application of new and amended accounting standards and new interpretations as illustrated below.

Changes in reporting principles in the reporting period

In the statement of cash flows, interest received and paid is now stated under net cash from/used by operating activities and no longer under net cash from/used by financing activities. The previous year's figures were adjusted accordingly.

1) First-time application of new and revised statutory accounting requirements

In the consolidated financial statements for 2010, the following new and revised International Financial Reporting Standards and Interpretations (IFRIC) were adopted for the first time:

Amendments to IFRS 2	Group Cash-settled Share-based Payment Transactions
Improvements to IFRS in 2009	Second omnibus edition

The revised standards replace the previous versions of these standards and apply to fiscal years beginning on or after January 1, 2010. The application of new and revised standards impacts the 2010 consolidated annual financial statements of MediGene AG as follows:

Amendment to IFRS 2 (»Share-based Payment: Group Cash-settled Share-based Payment Transactions«)

In March of 2009, the IASB published an amendment to IFRS 2 for group cash-settled share-based payment transactions. This amendment must be applied for the first time for fiscal years beginning on or after January 1, 2010. As the Group only makes group share-based payment transactions settled by means of equity capital instruments, this amendment has no impact on the presentation of the Group's asset, financial, and income position.

Improvements to IFRS 2009 (»Second omnibus edition«)

In April 2009, the IASB published improvements to the IFRS. They were the second omnibus edition to be published as a part of the Annual Improvements Process (AIP) project and include 15 different amendments to 12 existing IFRS standards. The AIP project deals with necessary, but not urgent, amendments to existing standards. These omnibus amendments were converted into EU law on March 23, 2010 and apply to periods beginning on or after January 1, 2010.

Standard/Interpretation	Accounting-related amendment	Impact
IFRS 2 »Share-based Payment«	Scope of IFRS 2 and revised IFRS 3: Clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of IFRS 2.	No impact
IFRS 5 »Non-current Assets Held for Sale and Discontinued Operations«	Disclosures: Clarifies that the disclosures required of non-current assets (or disposal groups) classified as held for sale or discontinued operations are only those set out in IFRS 5.	Implemented
IFRS 8 »Operating segments«	Disclosure of information about segment assets: Segment assets and liabilities need only be reported when those assets and liabilities are included in measures used by the chief operating decision maker.	Implemented
IAS 1 »Presentation of Financial Statements«	Current/non-current classification of convertible instruments: The terms of a liability that could at anytime result in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.	No impact
IAS 7 »Statement of Cash Flows«	Classification of expenditures on unrecognised assets: Only expenditure that results in a recognised asset can be classified as a cash flow from investing activities.	No impact
IAS 17 »Leases«	Classification of land and buildings: The specific guidance on classifying land as a lease has been removed so that only the general guidance remains.	Not applicable
IAS 36 »Impairment of Assets«	Unit of accounting for goodwill impairment testing: The largest unit permitted for allocating goodwill acquired in a business combination is the operating segment defined in IFRS 8 before aggregation for reporting purposes.	No impact
IAS 38 »Intangible Assets«	Consequential amendments arising from IFRS 3: If an intangible acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of intangibles as a single asset provided the individual assets have similar useful lives. Measuring fair value: The valuation techniques presented for determining the fair value of intangible assets acquired in a business combination are only examples and are not restrictive on the methods that can be used.	Not applicable

Standard/Interpretation	Accounting-related amendment	Impact
IAS 39 »Financial Instruments: Recognition and Measurement«	Assessment of loan prepayment penalties as embedded derivatives: A prepayment option is considered closely related to the host contract when the exercise price reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. Scope exemption for business combination contract: The scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, not derivative contracts where further actions are still to be taken. Cash flow hedge accounting; Gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges or recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.	Not applicable
IFRIC 9 »Reassessment of Embedded Derivatives«	Scope of IFRIC 9 and IFRS 3: IFRIC 9 does not apply to possible reassessment at the date of acquisition to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation or a joint venture.	Not applicable
IFRIC 16 »Hedges of a Net Investment in a Foreign Operation«	Amendment of the restriction on the entity that can hold hedging instruments: Qualifying hedging instruments may be held by any entity within the group, provided the designation, documentation and effectiveness requirements of IAS 39 are met.	Not applicable

2) Amended standards and interpretations with no impact on the Group

Most of the following standards and interpretations have been in force since July 1, 2009. They have not, however, been adopted by the Group because they have no impact on either the Group's asset, financial, or income position, nor the presentation of the disclosures in the Notes. This is explained below:

Standard/ Interpretation/ Amendments	Title	Relevant for reporting period (as from date)	Incorporation into EU law (endorsement date)
IFRS 1 R	First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters (Amendments)	January 1, 2010	June 23, 2010
IFRS 3 R/ IAS 27 R	Business Combinations (Revised) Consolidated and Separate Financial Statements (Amendment)	July 1, 2009 July 1, 2009	June 3, 2009 June 3, 2009
IAS 39 R	Financial Instruments: Recognition and Measurement – Eligible Hedged Items	July 1, 2009	September 15, 2009
IFRIC 12	Service Concession Arrangements	March 30, 2009	March 25, 2009
IFRIC 15	Agreements for the Construction of Real Estate	January 1, 2010	July 22, 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	July 1, 2009	June 4, 2009
IFRIC 17	Distribution of Non-cash Assets to Owners	November 1, 2009	November 26, 2009
IFRIC 18	Transfers of Assets from Customers	November 1, 2009	November 27, 2009

3) Future changes in accounting and valuation methods

MediGene is currently evaluating the application of the following newly published and revised standards and interpretations, the application of which is mandatory in the 2011 fiscal year. MediGene is working on the assumption that these amendments will have no material impact on the consolidated financial statements. It has decided not to adopt these amendments prematurely.

Standard/Interpretation/Amendments	Date of coming into effect (IASB)
Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	July 1, 2010
IAS 24 – Related Party Disclosures (Revised)	January 1, 2011
Amendment to IAS 12 – Deferred taxes: Realization of Underlying Assets	January 1, 2012
Amendment to IAS 32 – Financial Instruments: Presentation – Classification of Rights Issues	February 1, 2010
Amendment to IFRIC 14 – Prepayments of a Minimum Funding Requirement	January 1, 2011
IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments	July 1, 2010
IFRS 9 – Financial Instruments: Classification and Measurement	January 1, 2013
Amendment to IFRS 7 – Financial Instruments: Disclosure	July 1, 2011
Improvements to IFRS 2010 – Third omnibus edition	Various, no earlier than July 1, 2010

(4) Significant accounting judgments, estimates, and assumptions

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

Discretionary judgments

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

Discontinued operation

In the 2010 fiscal year, MediGene AG signed a contract to sell the exclusive European distribution and marketing rights for the cancer drug Eligard® to its current marketing partner Astellas Pharma Europe Ltd. (hereinafter referred to as »Astellas«), Staines, United Kingdom. The Eligard® rights within the countries of the EU were transferred effective from March 1, 2011. According to IFRS 5, a decision must be made as to whether this transaction constitutes a discontinued operation. The management is granted some discretionary scope in judging whether the discontinued operation is a major segment of the company's business activities. In light of the size of the transaction, the management takes the view that the segment must be described as a discontinued operation according to IFRS 5.

Recording of one-off payments
The recording of one-off payments requires an assessment of whether the agreed payment will be made for services rendered or for those still to be rendered. If, in the view of the management, all contractually agreed services have been performed and the remaining requirements for the realization of revenue are met, the one-off payments are recognized immediately as income.

Deferred tax assets from loss carryforwards
The recognition of deferred tax assets requires certain assumptions to be made within the management's discretion. They mainly concern the assessment of the circumstances and the period in which tax assets can be realized by the use of existing loss carryforwards. The management has decided not to recognize tax assets in the extent to which they exceed the tax liabilities.

Capitalization of development expenses
Development expenses must be capitalized if the requirements for this in accordance with IAS 38 are met. This requires the management to make a number of estimates and assumptions. In the period ending on December 31, 2010, no development expenses were capitalized due to the fact that the management did not believe all the necessary requirements in accordance with IAS 38 had been met.

Estimates and assumptions
The most important assumptions regarding the future and other key sources of estimation uncertainty as of the balance sheet date which entail an appreciable risk that it might become necessary to adjust the carrying amounts of assets and liabilities within the next fiscal year are explained below:

Impairment of goodwill and intangible assets
The Group examines at least once per year whether goodwill is impaired. This requires, among other things, estimating the value in use of the underlying research and development projects which are allocated to both the goodwill and the cash-generating units. As the projects are not yet available for use, they are tested for impairment once a year. In order to estimate the value in use, the management must assess the expected future cash flows of the individual projects and the chances of the underlying projects showing successful development and select an appropriate discount rate. Given the length of the planning periods (up to 19 years), the assumptions and forecasts associated with this are subject to a significant degree of uncertainty. Please refer to Note (39) for the methodology of the impairment test and its results and presentation.

Fair value
Fair values are generally determined on the basis of market prices. The fair values of financial assets and liabilities for which no market prices can be determined are ascertained using valuation methods which include the discounted cash flow method. The input parameters incorporated in the model are based, wherever possible, on observable market data. If this is not possible, fair values are determined to a certain extent on the basis of discretionary judgments. These discretionary judgments concern input parameters such as liquidity risk, credit risk, and volatility. Changes in the assumptions relating to these factors could affect the fair values reported for the financial instruments. MediGene has measured financial assets and derivative financial instruments at fair value (cf. Note (63)).

Share-based payment
The costs of issuing stock options to Executive Board members and employees are valued within the Group at the fair values of these equity instruments at the time of their being granted. To estimate the fair value of share-based payment it is necessary to determine the most suitable valuation procedure, which depends on the terms under which the payment was granted. In order to make the estimation it will still be necessary to determine suitable input parameters, including in particular the likely option term and volatility, and to make appropriate assumptions. The assumptions and procedures used to estimate fair value of share-based payment are described in Note (16).

Defined benefit plans

The Group has concluded agreements on pension plans with employees and members of the company's management. The expenses accrued from defined benefit plans are determined using actuarial calculations. These are based on assumptions with regard to discount rates, expected income from plan assets, future wage and salary increases, mortality rates, and future pension increases. Given the long-term nature of these plans, such estimates are subject to a considerable degree of uncertainty (cf. Note (53)).

(5) Consolidation of subsidiaries

Consolidation principles

The consolidated financial statements are comprised of the individual financial statements of MediGene AG and its subsidiaries as per December 31 of any given fiscal year. The financial statements of the companies within the reporting entity are prepared according to uniform accounting and valuation methods.

All intragroup balances, transactions, income, expenses, and profits and losses arising from intragroup transactions included in the carrying amount of assets have been eliminated in full.

Reporting entity

There were no changes in the reporting entity compared with the previous year.

Subsidiaries

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

In addition to those of the parent company, MediGene AG, Planegg/Martinsried, Germany, the MediGene Group's consolidated financial statements include the financial statements of the two wholly owned subsidiaries, MediGene, Inc., San Diego, California, USA, and MediGene Ltd., Abingdon, Oxfordshire, United Kingdom. The subsidiaries were acquired in 2001 (MediGene, Inc.) and 2006 (MediGene Ltd.), respectively.

Consolidated companies as at Dec. 31, 2010	MediGene, Inc.	MediGene Ltd.
Registered office	San Diego, USA	Abingdon, United Kingdom
Percentage of share in %	100	100
Shareholders' equity in € thousand	2,122	12,815
Net income for the year in € thousand	2,753	19,841

(6) Investment in associates

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

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

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

Associates

a) Immunocore Ltd.

From the end of September 2008 onwards, MediGene Ltd. held 39.09% of the shares in Immunocore Ltd. Due to the issue of new shares in several steps, this proportion fell to 28.7% as of September 30, 2010. MediGene Ltd. continues to be the largest shareholder in this company. At present, Immunocore Ltd. is purely a research company that focuses on enhancing the mTCR technology.

Immunocore Ltd.'s fiscal year is divergent, starting on October 1 of the respective reporting year. For inclusion in the consolidated financial statement, Immunocore Ltd. has prepared interim financial statements with a reporting date of December 31, 2010 in accordance with standard accounting and valuation principles.

b) Catherex, Inc.

By the terms of a contract concluded on April 1, 2010 with Catherex, Inc., a newly formed private company based in Philadelphia, Pennsylvania, USA, MediGene, Inc. agreed to transfer to Catherex, Inc. the program to develop cancer-killing oncolytic herpes simplex viruses (oHSV). In return, MediGene, Inc. received 40% of the shares in Catherex, Inc. and thereby became the largest shareholder in the newly founded company. Furthermore, MediGene is supporting the further development of the oHSV technology by appointing two members to the Supervisory Board of Catherex, Inc. The transfer of the rights to the patents and licenses was subject to conditions precedent. These conditions were fulfilled on December 14, 2010.

Associates as at Dec. 31, 2010	Immunocore Ltd.	Catherex, Inc.
Registered office	Abingdon, United Kingdom	Philadelphia, USA
Percentage of share in %	28.7	40
Shareholders' equity in € thousand[1)]	6,258	–[2)]
Net loss for the year in € thousand[1)]	-5,534	–[2)]

[1)] 100%

[2)] For the newly founded Catherex, Inc. there were no figures available at the time of preparation of the consolidated financial statements.

(7) Discontinued operations

Discontinued operations are stated separately in accordance with IFRS 5 as soon as a division with business activities and cash flows that can be clearly delimited operationally from the remainder of the company for accounting purposes is classified as available for sale or has already been disposed of, and the division constitutes a separate and material line of business or regional business area, forms part of a coordinated overall plan to dispose of a specific and material line of business or regional business area, or is a subsidiary that was acquired solely with the intention of disposing of it.

In the income statement for the reporting period and the period with which it is compared, income and expenses from the discontinued operation that result from the disposal of European rights to the drug Eligard® are shown separately from income and expenses from continuing business operations and are stated separately in the consolidated statement of comprehensive income as the result after tax of the discontinued operation. The previous year's figures were adjusted accordingly (cf. Note (C)).

(8) Functional currency/foreign currency translation

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

Functional currency and reporting currency

The consolidated financial statements are presented in euro, the functional and reporting currency of the Group. The items included in the annual financial statements of the subsidiaries MediGene, Inc. and MediGene Ltd. are evaluated on the basis of the currency used in the primary business environment in which the company operates (functional currency). The functional currency of MediGene, Inc. is the US dollar ($) and that of MediGene Ltd. is the British pound (£).

Transactions and balances

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

Group companies

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

Expenses and income are translated into the reporting currency for the purpose of consolidation at the transaction exchange rate. Any differences arising from currency translation in the balance sheet compared with the previous year are recognized directly in shareholders' equity with no effect on income.

The following exchange rates were used in 2010 and as per the balance sheet date December 31, 2010:

Exchange rates

	Rate as at closing date		Average rate for the year	
	Dec. 31, 2010	Dec. 31, 2009	**2010**	2009
1 € in $	**1.3380**	1.4405	**1.32707**	1.39345
1 € in £	**0.8625**	0.8900	**0.85836**	0.89125

Source: Commerzbank AG, Reference Exchange Rates

(9) Property, plant, and equipment

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

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

Subsequent acquisition expenses are only included as part of the acquisition expenses of the asset or, if appropriate, as a separate asset if it is likely that future economic benefits resulting from these will flow to the Group and that the cost of the asset can be determined in a reliable manner. All other repairs and maintenance are charged as expenses to the income statement in the fiscal year in which they are incurred.

Upon the sale of property, plant, and equipment, the acquisition costs and the accumulated depreciation associated with these are removed from the accounts in the year of the disposal. Gains and losses on disposals are posted in other income and expenses and recognized in net profit or loss. The purchase and sale of property, plant, and equipment within the Group is eliminated during the process of consolidation. The useful life, the depreciation method, and the residual carrying amount are examined on each balance sheet date.

Details on the development of property, plant, and equipment can be found in the statement of fixed assets (p. 92 et seq.).

(10) Intangible assets

Accounting policies for intangible assets

The accounting principles used for the Group's intangible assets are summarized as follows:

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

Details on the development of intangible fixed assets can be found in the statement of fixed assets (p. 92 et seq.).

Technology rights, patents, and licenses

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

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

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

Research and development projects arising from business combinations

Any acquired intangible asset with a finite useful life arising from business combinations is capitalized at acquisition cost. The acquisition cost of an intangible asset acquired in the scope of a business combination equals the fair value as per the date of the company acquisition. Following their initial recognition, intangible assets are carried at acquisition or production cost less any amortization and impairments accumulated. The useful life of intangible assets is basically defined as either finite or indefinite. Intangible assets with a finite useful life are amortized over their useful economic life and always assessed immediately if there are any triggering events. For intangible assets with a finite useful life, the amortization period and amortization method are examined at least at the end of every fiscal year.

gible assets are carried at acquisition or production cost less any amortization and impairments accumulated. Regular amortization of an intangible asset takes place as from the date at which the respective drug candidate has obtained market approval. Until that date, an annual impairment test is carried out. In addition, a further impairment test is carried out immediately if there are any indications of impairment.

Goodwill
The goodwill that usually arises from the acquisition of other companies is assessed for impairment at regular intervals. For this purpose, an impairment test as defined by IAS 36 is carried out.

Capitalization of research and development expenses
According to IAS 38, development expenses must be capitalized depending on the possible outcome of development activities and subject to the cumulative existence of certain prerequisites. The 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 usual uncertainties inherent in drug development and regulatory imponderables.

(11) Impairment of non-financial assets

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

Intangible assets not yet available for use
Drug candidates still awaiting market approval by the authorities are not yet available for use. Accordingly, intangible assets based on drug candidates are not subjected to scheduled amortization but are tested for impairment at least once annually as per December 31. Potential causes of impairment can be found, for example, in preclinical and clinical research and development results.

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

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

Execution of impairment testing
To carry out an impairment test, the goodwill acquired as part of a business combination is allocated, starting on the date of acquisition, to the CGUs (cash-generating units) that benefit from the synergy effects. A CGU to which goodwill is allocated,
- represents the lowest level within the company in which the goodwill is monitored for the internal company management, and
- is no larger than a segment based on the primary or secondary reporting format of the Group as defined in IFRS 8 »Segment reporting«.

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

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

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

(12) Financial assets

Initial recognition

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

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

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

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

Subsequent measurement

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

a) Assets measured at fair value through profit and loss

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

b) Held-to-maturity investments
are non-derivative financial assets with fixed or determinable payments and fixed terms which the management intends and is able to hold until they fall due. In the periods under review, the Group did not have investments in this category.

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

d) Available-for-sale financial assets
are non-derivative financial assets either designated as available for sale or not classified in any of the categories already described. They are classified as non-current assets if the management has no intention of selling them within twelve months after the balance sheet date. Following initial recognition, available-for-sale financial assets are held at fair value with unrealized gains and losses being recognized directly in shareholders' equity in the consolidated statement of comprehensive income. If financial investments are disposed of and/or impaired, the cumulative gain or loss previously recorded in shareholders' equity is transferred to the income statement. Within the framework of pension commitments, for example, capitalized financial assets are allocated to this category.

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

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

Derecognition
A financial asset (or, if applicable, part of a financial asset or part of a group of similar financial assets) is derecognized if one of the following requirements is met:
- The contractual rights to receive cash flows from a financial asset have expired.
- The Group has transferred its contractual rights to receive cash flows from the financial asset to a third party or has assumed a contractual obligation to immediately pay the cash flow to a third party as part of an agreement that meets the condition in IAS 39 (pass-through agreement) and has thereby either (a) transferred all the significant risks and rewards associated with owning the financial asset or (b) neither transferred nor retained all the significant risks and rewards associated with owning the financial asset but instead transferred control of the asset.

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

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

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

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

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

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

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

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

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

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

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

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

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

A defined benefit plan is a pension plan which defines the pension benefits that an employee will receive upon retiring. The amount normally depends on one or more factors such as age, length of service, and salary. The obligations recognized in the balance sheet for defined benefit plans equals the present value of the defined benefit obligations (DBO) as per the balance sheet date less the fair value of the plan assets that arise from liability insurance, adjusted for cumulative unrecognized actuarial gains and losses and past unrecognized service costs. The DBO is calculated annually by an independent actuary using the projected unit credit method. The present value of the DBO is calculated by discounting the expected future cash payments using the interest rate of the highest-quality corporate bonds. These must be denominated in the currency in which the benefits are also paid and their terms to maturity must equal those of the pension obligations. Actuarial gains and losses derived using empirically established adjustments and changes to actuarial assumptions are recognized in income over the employees' expected remaining period of service if the balance of the cumulative, unrecognized actuarial gains and losses for each individual plan exceed 10% of the defined benefit obligations as per the end of the previous reporting period or 10% of the fair value of the plan assets, whichever is higher.

A defined contribution plan is a pension plan under which the Group pays fixed contributions to an independent entity (fund). With these plans, the Group has no legal or factual obligations to make additional contributions if the fund holds insufficient assets to pay all employees the pension claims for their service in current and previous fiscal years. The contributions are recognized in personnel expenses upon maturity. Prepaid contributions are recognized as assets to the extent that there is a right to a refund or a reduction in future payments.

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

(20) Taxes

Actual taxes

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

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

Deferred tax

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

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

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

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

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

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

Deferred tax pertaining to items recognized directly in shareholders' equity is also recognized in shareholders' equity.

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

(21) Leasing

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

There are no leases for property, plant, or equipment in which the Group is the lessee and bears the significant risks.

(22) Revenue recognition

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

Revenue from product sales and recurring license payments

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

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

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

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

R&D payments received from partners and other income

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

Interest income

Interest income is recognized when interest becomes payable.

(23) Public grants

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

(24) Research and development expenses

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

(25) Earnings per share

The net result per share is determined in accordance with IAS 33 »Earnings per share«. This result is also subdivided into continued and discontinued operations in accordance with IFRS 5.

Basic and actual earnings per share

The basic earnings per share are calculated by dividing the overall result for the period, the result for the period of continued operations, and the result for the period of discontinued operations to which the equity providers are entitled (the numerator), by the weighted average number of shares issued (the denominator) that are in circulation during the fiscal year.

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 option rights (denominator). The total comprehensive income for the period and result from discontinued and discontinued operations are adjusted for all changes in income or expense that would result from the conversion of the potential ordinary shares with dilution effects. For the stock options, it is calculated how many shares could be acquired at fair value (determined by the average stock market value of the Company's shares over the course of the year). The number of shares thereby calculated is compared with the number that would have resulted had the stock options been exercised. The conversion of potential ordinary shares is deemed to be completed on commencement of the period, or on the day, when the potential ordinary shares were issued.

(26) Statement of cash flows

The statement of cash flows was prepared in accordance with IAS 7 »Cash Flow Statements«. The company applied the indirect method when determining the net cash used by operating activities and classified these into operating, investing, and financing activities.

(27) Segment reporting/operating segments

Segment reporting in accordance with IFRS 8 »Operating segments« uses »management approach« to determine individual segments data. The individual segment data are provided by internal reporting, so that the determination of individual information represents the Company's reporting concept.

An »operating segment« is a company division in which business activities are performed which generate income, in which costs are incurred, the income situation of which is periodically reviewed by the company's key decision maker, and for which the relevant financial information is available.

For corporate management purposes, the Group is organized into business units based on products and services and has two operating segments subject to reporting requirements: »Marketed Products« and »Drug Candidates«. Financial information that cannot be assigned to either of the operating segments is reported under »Reconciliation«.

In addition, the Group reports revenue with external customers and non-current assets including property, plant, equipment, intangible assets, and goodwill, classified by the country in which the Company has generated revenue and/or holds assets.

The figures for the individual operating segments are presented in the Notes under (H) »Segment reporting«.

C) Discontinued operations

Discontinued operations in accordance with IFRS 5 discloses details of discontinued operations that are either classified as available for sale or have already been sold. This segment contains the transfer of Eligard® rights to Astellas agreed in 2010. All income and expenses attributable to Eligard® are stated under this heading. The previous year's figures were adjusted in accordance with IFRS 5.33.

MediGene has sold the exclusive European marketing and distribution rights to the cancer drug Eligard® to Astellas. The agreement concluded provides for the Company to receive one-off payments totaling € 25 million in three tranches. When the contract was signed, MediGene received a € 5 million payment that was initially carried as a deferred income item. The second payment, amounting to € 15 million, was received after the transfer of rights for the EU countries on March 3, 2011. MediGene expects to receive the final € 5 million payment upon the transfer of rights for non-EU countries at the end of 2011 or the beginning of 2012.

After the transfer of Eligard® rights for the EU countries to Astellas, published on March 1, 2011, MediGene will continue to be entitled to 2% of net sales. In return, MediGene will no longer be liable for any future costs or obligations in connection with this product.

As MediGene is handling all Astellas orders until the transfer of rights for EU countries, no assets held for sale were stated in the balance sheet.

In the following, the most important key figures for continued and discontinued operations are presented:

Key figures from continued and discontinued operations

In € thousand	2010			2009		
	continued	discontinued	total	continued	discontinued	total
Product sales	2,214	47,398	49,612	1,178	36,681	37,859
Other operating income	78	0	78	1,607	0	1,607
Total revenue	**2,292**	**47,398**	**49,690**	**2,785**	**36,681**	**39,466**
Cost of sales	-781	-39,210	-39,991	-837	-30,645	-31,482
Gross profit	**1,511**	**8,188**	**9,699**	**1,948**	**6,036**	**7,984**
Selling expenses	-2,030	-397	-2,427	-1,810	-382	-2,192
General and administrative expenses	-7,369	0	-7,369	-6,932	0	-6,932
Research and evelopment expenses	-13,494	0	-13,494	-18,499	0	-18,499
Loss resulting from spin-off	-6,212	0	-6,212	0	0	0
Operating result	**-27,594**	**7,791**	**-19,803**	**-25,293**	**5,654**	**-19,639**
Interest income	26	0	26	129	0	129
Interest expense	-1	0	-1	-5	0	-5
Income from financial assets	0	0	0	302	0	302
Foreign exchange gains/losses	346	0	346	-519	0	-519
Gains/losses from derivative financial instruments	0	1,517	1,517	0	-578	-578
Share of result of associates	46	0	46	-1,625	0	-1,625
Result from continued operations before tax	**-27,177**	**9,308**	**-17,869**	**-27,011**	**5,076**	**-21,935**
Taxes	0	0	0	-27	0	-27
Result from continued operations	**-27,177**			**-27,038**		
Result from discontinued operations		**9,308**			**5,076**	
Net loss for the year			**-17,869**			**-21,962**

Revenue from discontinued operations consists of product sales (2010: € 27,801 thousand; 2009: € 20,543 thousand) and license fees (2010: € 19,597 thousand; 2009: € 16,138 thousand) for Eligard® in Europe.

Cash from operating activities allocated to discontinued operations totaled € 10,748 thousand (2009: € 6,038 thousand) in the past fiscal year.

D) Notes to the income statement

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

(28) Total revenue

Total revenue from continued operations amounted to € 2,292 thousand in 2010 (2009: € 2,785 thousand). This revenue originates from product sales and license fees for the drug Veregen® and also includes two milestone payments totaling € 685 thousand for Veregen® from partners Abbott Arzneimittel GmbH, Hanover, and GC-Rise Pharmaceutical Co., Ltd., China. In the previous year the Group received one milestone payment of € 200 thousand for Veregen® from its partner Juste S.A.Q.F., Madrid, Spain.

Revenue from discontinued operations totaled € 47,398 thousand (2009: € 36,681 thousand) earned from the commercialization of the drug Eligard®.

Other operating income amounted to € 78 thousand (2009: € 1,607 thousand). It consisted of grants amounting to € 65 thousand (2009: € 447 thousand) and other income amounting to € 13 thousand (2009: € 1,160 thousand). In the previous year the Company posted € 1,080 thousand in other income from a compensation payment.

Total revenue

In € thousand	2010	2009	Change
Product revenue and royalties	1,529	975	57%
Milestones	685	203	>200%
Product sales	**2,214**	**1,178**	**88%**
Grants	65	447	-85%
Other income	13	1,160	-99%
Total from continued operations	**2,292**	**2,785**	**-18%**
Discontinued operations	47,398	36,681	29%

(29) Cost of sales

The cost of sales from continued operations amounting to € 781 thousand (2009: € 837 thousand) consists of procurement costs for the product Veregen® and a share in sales revenue in the form of license payments. For the commercialization of Eligard®, procurement costs for discontinued operations totaling € 39,210 thousand (2009: € 30,645 thousand) were incurred.

Cost of sales

In € thousand	2010	2009	Change
Cost of sales	522	786	-34%
Royalties	259	51	>200%
Total from continued operations	**781**	**837**	**-7%**
Discontinued operations	39,210	30,645	28%

(30) Selling expenses

Selling expenses consist entirely of expenses for business development. These include personnel expenses, marketing and regulatory costs, consulting fees, market studies, and other services. No further selling activities for products were conducted in the reporting period. Selling expenses for discontinued operations were incurred in the discontinued business area.

Selling expenses

In € thousand	2010	2009	Change
Personnel expenses	871	945	-8%
Marketing/regulatory fees	436	0	–%
Consultancy fees/market surveys	342	509	-33%
Office rent and utilities	93	61	52%
Depreciation	3	1	200%
Other	285	294	-3%
Total from continued operations	**2,030**	**1,810**	**12%**
Discontinued operations	397	382	4%

(31) General and administrative expenses

In the reporting period, administrative expenses were 6% higher than in the corresponding period of the previous year. This was mainly due to an increase in consultancy fees.

General and administrative expenses

In € thousand	2010	2009	Change
Personnel expenses	3,694	4,082	-10%
Consultancy fees	1,428	879	62%
Office rent and utilities	396	316	25%
Depreciation	93	95	-2%
Other	1,758	1,560	13%
Total	**7,369**	**6,932**	**6%**

(32) Research and development expenses

R&D expenses fell by 27% compared with the previous year. Personnel expenses and external costs for clinical and preclinical development account for the largest proportion of R&D expenses. The decrease in expenses resulted from a reduction in spending on preclinical development, the completion of various EndoTAG®-1 development subprojects, and the downsizing of the R&D department.

Research and development expenses

In € thousand	2010	2009	Change
Personnel expenses	5,142	7,766	-34%
Third party expenses	4,850	5,878	-17%
Office rent and utilities	895	979	-9%
Depreciation	739	733	1%
Patent and license fees	638	1,246	-49%
Consultancy fees	368	537	-31%
Laboratory material costs	228	434	-47%
Other	634	926	-32%
Total	13,494	18,499	-27%

(33) Financial result

The financial result improved in the last fiscal year to € 371 thousand (2009: € -93 thousand) due to currency exchange gains.

Currency exchange gains resulted from the translation of the US dollar and the British pound into euro. Currency exchange gains totaling € 808 thousand in the previous year resulted from hedging for a net investment. In the reporting period, these were recognized in net income following the dissolution of the investment in October 2010 for which the hedge was taken out.

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

In the previous year, gains from financial assets were derived mainly from the sale of shares held by MediGene in the Canadian listed company QLT, Inc., Vancouver, British Columbia, Canada, for € 302 thousand.

The contract concluded with Astellas for the marketing of Eligard® includes an embedded foreign currency derivative as it is denominated in US dollars and not in the functional currency of either of the two contracting parties. As a result of an increase in expected and received purchase orders compared with the previous year, and the rise in the US dollar's value against the euro during the reporting period, gain from discontinued operations of € 1,517 thousand (2009: € - 578 thousand) from this financial instrument was realized as of the reporting date December 31, 2010.

Financial result

In € thousand	2010	2009	Change
Interest income	26	129	-80%
Interest expense	-1	-5	-80%
Subtotal	25	124	-80%
Foreign exchange gains/losses	346	-519	-167%
Income from financial assets	0	302	–%
Total	371	-93	>-200%
Discontinued operations (derivative financial instrument)	1,517	-578	>-200%

(34) Basic and diluted earnings per share

The following table shows the calculation of the diluted earnings per share:

Basic earnings per share

In € thousand	2010	2009	Change
Net loss for the year	-17,869	-21,962	-19%
Interest on convertible bonds	1	5	-80%
Result adjusted for effects from convertible bonds	-17,868	-21,957	-19%

Diluted earnings per share

In no.	2010	2009	Change
Weighted average number of shares	36,563,966	34,231,294	7%
Effect of dilution:			
Number of stock options	153,264	0	–%
Weighted average number of ordinary shares adjusted for the effect of dilution	36,717,230	34,231,294	7%
Diluted earnings per share in €	-0.49	-0.64	-23%
Diluted earnings per share from continued operations in €	-0.74	-0.79	-6%
Diluted earnings per share from discontinued operations in €	0.25	0.15	66%

Of the total 1,567,719 stock options, 1,414,455 did not have a dilutive effect, since the exercise price of most of the stock options was above the average share price of € 2.81 for the year (German Stock Exchange; XETRA closing price).

(35) Personnel expenses

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

Personnel expenses

In € thousand	2010	2009	Change
Salaries and wages	8,194	11,013	-26%
Social security	1,079	1,220	-12%
Pension expenses			
defined contribution plans	36	106	-66%
defined benefit plans	118	165	-28%
Stock options issued to executives and employees	264	394	-33%
Other	255	145	76%
Total	9,946	13,043	-24%

Employees by function as at Dec. 31

	2010	2009	Change
Business development and general administration	25	28	-11%
Research and development	67	86	-22%
Total	92	114	-19%

The average number of employees in 2010 fell to 97 (2009: 113). This decline was due mainly to the restructuring measures announced in September 2010, the result of which was a reduction in the number of employees to 63 as of January 1, 2011. In spite of the severance payments amounting to € 581 thousand made as part of the restructuring, personnel expenses fell in the reporting period by 24% to € 9,946 thousand (2009: € 13,043 thousand).

(36) Loss resulting from spin-off

MediGene, Inc. made a contribution in kind (see Notes (6) and (45)) in transferring the oHSV program to Catherex, Inc. An impairment test was undertaken in this regard for CGU 3 in accordance with IAS 36 and € 9,226 thousand in goodwill was written off entirely at the end of the year (see Note (39)). MediGene earned € 3,014 thousand in income in the course of the transfer. In all, the transaction led to a loss amounting to € 6,212 thousand.

(37) Share of result of associates

The gain from the associate Immunocore Ltd. totaled € 46 thousand in the past fiscal year (2009: € -1,625 thousand). It is made up of an increase in pro rata shareholder's equity of € 1,965 thousand in the course of the issue of new shares, and from the share of loss of the associate totaling € 1,919 thousand (see Note (45)).

(38) Depreciation and impairment of fixed assets

In line with the use of the cost of sales method, the amortization, depreciation, and impairment of intangible assets, property, plant, and equipment are not shown separately in the income statement. Instead, they are allocated to the selling, general, and administrative expenses, research and development expenses, and/or losses resulting from the spin-off.

Depreciation and impairment of fixed assets

In € thousand	2010	2009	Change
Regular depreciation			
of property, plant & equipment	389	385	1%
of intangible assets	446	446	0%
Subtotal	835	831	0%
Impairment			
of intangible assets	0	0	–%
of goodwill	9.226	0	–%
Total	10.061	831	>200%

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

By the terms of a contract dated August 25, 2010, MediGene AG acquired intangible assets from MediGene Ltd. The Group revised the composition of the cash generating units (CGUs) as a result of this and merged the previous CGU 1 and CGU 2, which were allocated to MediGene Ltd., into a CGU 1/2.

The carrying amounts of goodwill and intangible assets not yet available for use as of December 31, 2010 are allocated to the CGUs as follows:

Carrying amounts of goodwill and intangible assets

	MediGene AG	MediGene Ltd.		MediGene, Inc.	
	CGU 1/2	CGU 1	CGU 2	CGU 3	
In € thousand	2010	2009		2010	2009
Carrying amount of goodwill	2,212	2,046	0	0	9,226
Carrying amount of intangible assets not yet available for use	27,577	21,971	3,540	–	–

As of the reporting date, December 31, 2010, the carrying amount for the goodwill was € 2,212 thousand (December 31, 2009: € 11,272 thousand) and the carrying amount for intangible assets not yet available for use was € 27,577 thousand (2009: € 25,511 thousand). The carrying amounts are allocated to CGU 1 (RhuDex®) and CGU 2 (an early development project), which were merged during the reporting period. Both of them originated from the acquisition of the UK subsidiary MediGene Ltd. in 2006. Until the end of August 2010 these carrying amounts were denominated in British pounds and increased due to the appreciation of the British pound against the euro. Since the transfer date the carrying amounts have been denominated in euro.

In the previous year, € 9,226 thousand in goodwill resulted from the acquisition of MediGene, Inc. in 2001. This euro-denominated goodwill was based on the CGU 3 (oHSV) and was written off entirely in the course of the oHSV program transfer in the 2010 fiscal year.

a) Annual impairment test as per December 31, 2010

Methodology for determining the recoverable amount:

The recoverable amount for CGU1/2 is estimated on the basis of value-in-use calculations using discounted cash flow models. A value-in use can be determined for each of the projects that form the basis of CGU1/2, as the clinical development and subsequent marketing of the drug candidates for a specific indication have been firmly established.

Basic assumptions for calculating the value in use for CGU 1/2

The cash flow models are based on the assumption that the drugs are approved and marketed on the three largest pharmaceuticals markets worldwide, i.e. the USA, Europe, and Japan. The cash flow forecasts used include assumptions regarding the probability of market entry, future competition, project progress, the product profile, and the market share of the future drug candidate. The forecast period usually spans the expected term of the patent. There are valuation uncertainties regarding the following assumptions that form the basis of the calculation of the fair value of both CGUs:

- Probability of market entry
- Development periods and project progress
- Anticipated market share and number of patients treated on the relevant submarket

Probability of market entry

MediGene has made assumptions on the probability of market entry for the individual drug candidates. The necessity for those assumptions arises from the typical drug development risks. These risks may vary depending on the class of substance and class of drugs, as well as the medical indication. Accordingly, management has applied the customary probability of success within the industry for its valuation models. In addition, project-specific assumptions were added to these valuations. These development risks are taken into consideration in determining the project-specific interest rate.

Development periods and project progress

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

Anticipated market share

Management compares the data available for the development project, the target profile, and the development data – if accessible – and on this basis makes an assessment of the anticipated market share. In order to estimate the number of patients that will be treated in the future, MediGene also draws from the estimates of external consulting and assessment specialists.

Project-specific assumptions

	MediGene AG
	CGU 1/2
Planning period in years	19
Risk adjusted project-specific discount rate in %	42-48

On the basis of these assumptions, no impairment requirement was found to exist for CGU 1/2.

Sensitivity of the assumptions made

In the basic assumptions made for determining the value in use of CGU 1/2, reasonable judgment shows that changes may occur that would cause the carrying amount of the CGU to exceed the value in use, thereby inducing depreciation and/or amortization.

The actual value in use of CGU 1/2 exceeds its carrying amount.

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

CGU 1/2

As this CGU has the highest value potential, MediGene carried out different sensitivity analyses.

The first approach examines the influence of greater risks with regard to the safety and effectiveness profile during clinical development. The increased development risks are reflected in a risk factor that takes the probability of market approval into account. If the probability of market approval is reduced by 1.4%, the value in use would approach the carrying amount of CGU 1/2.

The second approach examines how the postponement of the planned market entry for one year affects the value. In this scenario, the value in use approximates the carrying amount of the CGU.

The third approach assumes that, in contrast to the current benchmark analysis of comparable partnership agreements, the anticipated income from milestone and advance payments from a partnership are only half as high (50% discount). In this case, the value in use exceeds the CGU's carrying amount.

b) Impairment test for the oHSV spin-off

By the terms of a contract concluded on April 1, 2010 with Catherex, Inc., a newly formed private company based in Philadelphia, Pennsylvania, USA, MediGene, Inc. agreed to transfer to Catherex, Inc. the program to develop cancer-killing oncolytic herpes simplex viruses (oHSV). The transfer of rights to the patents and licenses to Catherex, Inc. was subject to conditions precedent that were fulfilled on December 14, 2010.

In December 2010 an impairment test was undertaken for CGU 3 in accordance with IAS 36. Due to the transfer of oHSV rights to the patents and licenses to Catherex, Inc. the goodwill for CGU 3 amounting to € 9,226 thousand was written off in full. In return, MediGene received 40% of the shares in Catherex, Inc.

(40) Impairment of other intangible assets

As of the closing date of December 31, 2010, there was no indication of impairment for the EndoTAG® patents and licenses recorded in the balance sheet. MediGene amortizes these assets over the useful life of the underlying patents.

(41) Cost of materials and cost of services

The expense items in the income statement contain the following costs of materials:

Cost of materials and cost of services

In € thousand	2010	2009	Change
Cost of sales	**781**	837	-7%
Expenses for R&D material	**228**	434	-47%
Subtotal	**1,009**	**1,271**	**-21%**
Cost of services	**4,850**	5,878	-17%
Total from continued operations	**5,859**	**7,149**	**-18%**
Discontinued operations	**39,210**	30,645	28%

Costs stated under discontinued operations are the cost of sales for the purchase of the drug Eligard® and license payments to the partner. Purchase of the active ingredient for Veregen® and license payments to partners are shown separately under cost of sales. The cost of R&D materials includes expenses for laboratory materials and chemicals amounting to € 228 thousand (2009: € 434 thousand). The cost of services purchased totaling € 4,850 thousand (2009: € 5,878 thousand) consists of execution of clinical trials amounting to € 2,299 thousand (2009: € 2,641 thousand), production services € 1,566 thousand (2009: € 1,704 thousand), preclinical development services € 883 thousand (2009: € 1,374 thousand), and approval costs € 102 thousand (2009: € 159 thousand).

E) Notes on the balance sheet

ASSETS

(42) Property, plant, and equipment

The detailed composition and development of property, plant, and equipment can be found in the statement of fixed assets (p. 92 et seq.).

(43) Intangible assets

The increase in intangible assets from € 30,503 thousand to € 31,886 thousand relates solely to exchange rate effects as of the balance sheet date. These effects are the result of the carrying amount of the intangible assets that were denominated in British pounds until August 2010. These assets are derived from the acquisition of the subsidiary MediGene Ltd. and are based on the RhuDex® project as well as another project at the research stage. Since the patents relating to these projects have been transferred to MediGene AG, these carrying amounts have been denominated in euro. The patents and licenses for EndoTAG® are also stated as intangible assets.

MediGene has not capitalized any internally generated intangible assets.

(44) Financial assets

Available-for-sale financial assets are based on a value derived from the share price and consist of assets resulting from pension agreements that are not to be qualified as plan assets.

Financial assets

In € thousand	Dec. 31, 2010	Dec. 31, 2009	Change
Listed fund shares (pension)	153	152	1%
Total	153	152	1%

(45) Investment in associates

As of the end of the reporting period, the Group holds a 28.7% investment in Immunocore Ltd. and 40% in Catherex, Inc. Immunocore Ltd. has a divergent fiscal year which begins on October 1 of each reporting period. Immunocore Ltd. prepared corresponding interim financial statements with a reporting date of December 31, 2010 for inclusion in the consolidated financial statements.

The carrying amount of the two associates as of December 31, 2010 rose to € 5,059 thousand (2009: € 1,961 thousand).

Investment in associates

In € thousand	Dec. 31, 2010	Dec. 31, 2009
Share of the associates' balance sheet*):		
Current assets	1,678	1,518
Non-current assets	286	347
Current liabilities	-169	-229
Non-current liabilities	0	0
Pro rata net assets	1,795	1,636
Share of the associates' revenue and result*):		
Revenue	87	97
Result	-1,919	-1,625

*) For the newly founded Catherex, Inc. there were no figures available at the time of preparation of the consolidated financial statements.

(46) Inventories

Inventories of the Eligard® and Veregen® products totaled € 1,693 thousand (2009: € 1,455 thousand) as of the closing date. There was no impairment of the lower net sales price.

(47) Other current assets and trade accounts receivable

Other current assets and trade accounts receivable

In € thousand	Dec. 31, 2010	Dec. 31, 2009	Change
Accrued royalties	5,732	4,683	22%
Prepaid expenses with a term <1 year	826	1,033	-20%
Rent deposit	323	323	0%
Grants	17	169	-90%
VAT receivables	10	71	-86%
Other	40	35	14%
Total other assets	6,948	6,314	10%
Trade accounts receivable	4,516	749	>200%

Other assets totaled € 6,948 thousand (2009: € 6,314 thousand) in the reporting period. They consisted for the most part of € 5,504 thousand in license fees due from a cooperation partner in the fourth quarter of 2010.

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

Aging analysis of trade accounts receivable and other current assets

		Maturity					
In € thousand	impaired	up to 30 days	30-180 days	180-360 days	1-5 years	> 5 years	Total
Balance at Dec. 31, 2010							
Other current assets	0	6,324	27	597	0	0	**6,948**
Trade accounts receivable	0	4,515	0	1	0	0	**4,516**
Total	**0**	**10,839**	**27**	**598**	**0**	**0**	**11,464**
Balance at Dec. 31, 2009							
Other current assets	0	5,436	240	638	0	0	**6,314**
Trade accounts receivable	-26	749	0	7	19	0	**749**
Total	**-26**	**6,185**	**240**	**645**	**19**	**0**	**7,063**

In the previous year, one account receivable was written off in full as a bad debt. As a result, the allowance for bad debt created in 2010 was also written off.

Allowance account for bad debt

In € thousand	2010
Balance at Jan. 1, 2010	26
Allowance	-26
Balance at Dec. 31, 2010	**0**

(48) Cash and cash equivalents

Cash and cash equivalents

In € thousand	Dec. 31, 2010	Dec. 31, 2009	Change
Cash and cash equivalents < 3 months	**4,770**	12,251	-61%
Total	**4,770**	**12,251**	**-61%**

Cash and cash equivalents were invested in the form of financial investments with terms of less than three months. The carrying amount of cash and cash equivalents corresponds to their fair value. The effective interest rate for short-term bank deposits is variable and ranged from 0.10% to 0.78% in the reporting period. The change in cash and cash equivalents from the previous year is shown in the statement of cash flows.

LIABILITIES AND SHAREHOLDERS' EQUITY

(49) Shareholders' equity

a) Subscribed capital

As of December 31, 2010, subscribed capital had increased from € 35,557 thousand to € 37,082 thousand. It is divided into 37,082,758 no-par-value registered shares, 100% of which had been issued and were tradable as of the balance sheet date. In the first half of 2010, a total of 1,525,265 new shares was issued against cash and admitted to trading. This took place within the framework of the SEDA (»Standby Equity Distribution Agreement«) concluded with the investment company YA Global Investments L.P., Jersey City, New Jersey, USA, which acquired these shares in three capital increases.

Subscribed capital

	Number of shares	Subscribed capital in € thousand	Capital reserve in € thousand	Total in € thousand
Balance at Jan. 1, 2009	**34,028,561**	**34,029**	**335,973**	**370,002**
Executives and employees stock option plan				
Value of services provided			394	**394**
Shares issued				
Cash	1,528,932	1,528	4,120	**5,648**
Balance at Dec. 31, 2009	**35,557,493**	**35,557**	**340,487**	**376,044**
Executives and employees stock option plan				
Value of services provided			264	**264**
Shares issued				
Cash	1,525,265	1,525	2,953	**4,478**
Balance at Dec. 31, 2010	**37,082,758**	**37,082**	**343,704**	**380,786**

b) Stock options

Equity instruments such as stock options are valued and reported in the balance sheet in accordance with IFRS 2.

Stock options are issued to Executive Board members and employees. They are initially issued within one year following their joining the Company. The exercise price per option on the issue date equals the average closing price over the last 30 trading days on the XETRA trading system at German Stock Exchange plus a premium of 20%. Holders of subscription rights cannot exercise their options prior to the expiration of a waiting period of two years starting from the allotment date of the respective subscription right. The options have a contractual term to maturity of ten years. The Group is not obliged to repurchase options or pay for them on either a de jure or de facto basis.

In the reporting year, 60,958 stock options were issued to Executive Board members according to shareholders' resolution dated May 25, 2007 (conditional capital XVIII) (2009: 81,350 stock options to Executive Board members from conditional capital XVIII). MediGene AG has dispensed with the expiration of these stock options in the event that holder of subscription rights leaves the Company and has accordingly stated them as an expense.

In 2010, a further 110,310 stock options were issued to employees in January, with a further 92,306 in December, according to shareholders' resolution dated May 25, 2007 (conditional capital XVIII). If an employee's contract of employment is terminated on grounds of personal capability or conduct, or if the option holder submits notice of resignation before the end of the waiting period in question, all options from both programs will expire without entitlement to replacement or compensation if their waiting period has not yet expired when the employment relationship comes to an end.

The average exercise price for stock options issued to employees in January 2010 is € 3.69, and € 1.87 for options issued to Executive Board members and employees in December 2010.

Total change in stock options outstanding

	2010		2009		2008	
	Average exercise price in € per option	Number	Average exercise price in € per option	Number	Average exercise price in € per option	Number
Stock options outstanding, balance at Jan. 1	**6.10**	**1,389,276**	6.23	1,441,108	7.31	988,026
Issued	**2.63**	**263,574**	0	0	4.27	349,371
Issued, not accepted in the year under review	**0**	**0**	3.69	81,350	3.89	201,162
Exercised	**0**	**0**	0	0	2.93	-78,880
Forfeited	**3.80**	**-18,610**	3.92	-10,976	7.13	-1,371
Lapsed	**6.48**	**-66,521**	6.29	-122,206	5.35	-17,200
Stock options outstanding, balance at Dec. 31		**1,567,719**		**1,389,276**		**1,441,108**
Weighted average exercise price in € per option		**5.52**		6.10		6.23

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

Valuation parameters for stock option plan

	2010	2009	2008
Vesting period	**2 years**	2 years	2 years
Option term	**10 years**	10 years	10 years
Exercise hurdle rate	**120%**	120%	120%
Expected volatility	**51%/50%**	51%	42%/51%
Risk-free interest rate	**3.66%/3.18%**	3.66%	3.36%/3.93%

The expected volatility was determined on a historical basis and is based on the floating 250-day average prevailing as per the time when the options are issued. The risk-free interest rate corresponds to the yield of a hypothetical zero coupon bond excluding any risk of default. It was 3.66% in January 2010 and 3.18% in December 2010, corresponding to the months in which the options were issued (source: German Central Bank). The fair value of the stock options issued during the 2010 fiscal year was € 1.82 per option in January 2010 and € 0.92 in December 2010. In 2010, expense for stock-based payment types totaling € 264 thousand (2009: € 394 thousand) was posted in accordance with IFRS. They consist of the following:

Expenses for stock options

In € thousand	2010	2009
Expenses for stock options		
2007	**0**	108
2008	**119**	134
2009	**0**	152
2010	**145**	0
Total	**264**	**394**

As of December 31, 2010, the stock options outstanding were classified by conversion price, number of options issued, remaining term to maturity, and options that could still be exercised:

Exercise price and term of stock options outstanding

Exercise price in €	Number of stock options outstanding	Residual term in years	Number of exercisable stock options
4.60	45,179	3	45,179
4.68	80,000	3	80,000
7.69	60,237	4	60,237
8.10	40,000	4	40,000
12.37	131,062	5	131,062
10.22	111,341	6	111,341
5.88	234,029	7	234,029
4.34	297,860	8	297,860
3.89	231,547	8	231,547
3.69	81,350	9	–*)
3.69	101,850	10	–*)
1.87	153,264	10	–*)
	1,567,719		**1,231,255**

*) Stock options issued in 2009 and 2010 could not be exercised as at December 31, 2010.

The weighted average remaining term of stock options in circulation is 7.18 years.

c) Convertible bonds

No convertible bonds were issued in 2010 or 2009. As of December 31, 2010, there were no longer any outstanding, valid convertible bonds (2009: 9,000 outstanding).

Total change in convertible bonds outstanding

	2010	2009	2008
Convertible bonds outstanding, balance at Jan. 1	9,000	46,210	61,831
Issued	0	0	0
Exercised	0	0	-3,200
Forfeited	0	0	0
Lapsed	-9,000	-37,210	-12,421
Convertible bonds outstanding, balance at Dec. 31	0	9,000	46,210
Average conversion price in € per bond	0	12.37	8.81

d) Authorized capital

The Executive Board was authorized – with the approval by the Supervisory Board – by a shareholders' resolution on May 11, 2010 to increase the share capital by a total of up to € 18,066,102 (approximately 49.50% of the share capital) before May 10, 2015 by issuing up to 18,066,102 new registered shares (no-par shares) on one or more occasions against contributions in cash or in kind (2010/I authorized capital). The authorization can be used in partial amounts. The Executive Board, with the approval of the Supervisory Board, is authorized to stipulate the further content of share rights and the conditions of issuing shares. As of December 31, 2010, the Company still had 17,477,867 new registered no-par shares from the 2010 authorized capital at its disposal.

e) Conditional capital and specification of conditional capital

The Company's share capital was increased conditionally by a shareholders' resolution on May 11, 2010 by € 11,000,000 (conditional capital XXI). The sole purpose of the conditional capital is to grant new shares to the holders of options or conversion rights; these shares are issued by MediGene AG or by companies in which it has a direct or majority holding in accordance with the resolution passed at the Annual General Meeting on May 11, 2010 under agenda item 8 b). The shares are issued at the aforementioned conversion and option price in accordance with the aforementioned resolution. The conditional capital increase is carried out only insofar as the holders of conversion rights or options exercise these rights or meet the conversion requirements of such bonds. Provided that the shares exist by the start of the Company's Annual General Meeting, they entitle their owners to share in the profits from the beginning of the previous fiscal year, or otherwise from the beginning of the fiscal year in which they come into being.

Classification of conditional capital by stock options and convertible bonds

(No.)	Amount as at Dec. 31, 2010	Usage[1]
I	136,897	Options
II	106,429	Options
III	125	TBG[2] loan
IV	13,770	Convertible bonds
V	652,329	Convertible bonds
VI	3,000	Convertible bonds
VIII	3,000	Convertible bonds
X	3,000	Convertible bonds
XI	1,400	Convertible bonds
XII	498,560	Options
XVI	300,000	Options
XVIII	1,600,000	Options
XX[3]	0	Convertible bonds and options
XXI[4]	11,000,000	Convertible bonds and options
	14,318,510	

[1] to provide for
[2] Technologie-Beteiligungs-GmbH
[3] Canceled by shareholders' resolution of May 11, 2010.
[4] Newly created by shareholders' resolution of May 11, 2010.

(50) Capital reserve

No stock options were exercised and no convertible bonds were converted in 2010 or 2009.

Capital reserve

In € thousand	Jan. 1, 2009	Change	Dec. 31, 2009	Change	Dec. 31, 2010
Shares issued	345,770	4,572	350,342	2,975	**353,317**
Expenses on shares issued	-15,812	-452	-16,264	-22	**-16,286**
Exercise of stock options	890	0	890	0	**890**
Exercise of convertible bonds	1,455	0	1,455	0	**1,455**
Expenses on new options	3,670	394	4,064	264	**4,328**
Total	**335,973**	**4,514**	**340,487**	**3,217**	**343,704**

(51) Accumulated deficit

Accumulated deficit

In € thousand	Jan. 1, 2009	Change	Dec. 31, 2009	Change	Dec. 31, 2010
Net loss	-293,267	-21,962	-315,229	-17,869	**-333,098**
Total	**-293,267**	**-21,962**	**-315,229**	**-17,869**	**-333,098**

(52) Other reserves

Other reserves

In € thousand	Jan. 1, 2009	Change	Dec. 31, 2009	Change	Dec. 31, 2010
Unrealized gains/losses on hedge of a net investment	-1,837	808	-1,029	1,029	**0**
Net gain on available-for-sale financial assets	0	0	0	1	**1**
Currency translation adjustments	-9,992	2,079	-7,913	1,022	**-6,891**
Total	**-11,829**	**2,887**	**-8,942**	**2,052**	**-6,890**

The monetary item in the form of an outstanding account receivable from a foreign subsidiary was treated in the previous year as a part of a net investment and recognized directly in the statement of comprehensive income. As this account receivable no longer existed at the end of the reporting period, the loss incurred from hedging this net investment was shown in the income statement and recognized as such. The unrealized profit from the asset held for sale is recognized directly in the statement of comprehensive income.

Currency differences arising from the translation of assets or goodwill denominated in foreign currencies or from the translation of financial statements of foreign subsidiaries are stated directly in equity under other reserves.

(53) Pension obligations

MediGene offers all of its employees in Germany defined benefit plans in the form of a benevolent fund. These pension plans are fully reinsured with contracts. In addition, the Group has come to individual agreements with the members of its senior management and some employees in the form of direct commitments with guaranteed interest rates. These commitments allow for the conversion of bonus payments into pension entitlements for defined benefit plans. In accordance with IAS 19.7, the assets allocated to these pension entitlements do not constitute plan assets.

The amount for pension obligations is determined as follows:

Pension obligations

In € thousand	Dec. 31, 2010	Dec. 31, 2009
Present value of benefit obligations	1,687	1,608
Fair value of plan assets	-1,491	-1,528
Subtotal	**196**	**80**
Unrecognized actuarial gains	49	91
Effect of IAS 19.58(b) limit	0	64
Obligations in the balance sheet	**245**	**235**

The plan assets are made up of liability insurance policies. As of the closing date December 31, 2010, the actual income from the liability insurance policies was € 32 thousand (2009: € 31 thousand). The following amounts were recorded in personnel expenses in the income statement:

Expenses recognized in the income statement

In € thousand	2010	2009
Current service cost	94	109
Interest expense	90	72
Expected return on plan assets	-54	-55
Actuarial gains/losses	-12	1
Effect of IAS 19.58(b) limit	0	38
Total included in personnel expenses	**118**	**165**

Actuarial assumptions

In %	2010	2009
Discount rate	5.4	6.0
Expected rate of return on plan assets	4.0	4.0
Future salary increases	4.0	4.0
Future pension increases	1.0/2.0	1.0/2.0

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

The change in the present value of the defined benefit obligations is as follows:

In € thousand	
Benefit obligations at Jan. 1, 2009	**1,414**
Interest expense	72
Current service cost	109
Plan members contributions	51
Actuarial losses	-38
Benefit obligations at Dec. 31, 2009	**1,608**
Interest expense	90
Current service cost	94
Plan members contributions	49
Benefits paid	-225
Actuarial gains	71
Benefit obligations at Dec. 31, 2010	**1,687**
of which	
funded by plan assets	1,479
not funded by plan assets	208

The change in the present value of the plan assets is as follows:

In € thousand	
Fair value of plan assets at Jan. 1, 2009	**1,303**
Expected return on plan assets	55
Employer contributions	144
Member contributions	51
Actuarial losses	-25
Fair value of plan assets at Dec. 31, 2009	**1,528**
Expected return on plan assets	54
Employer contributions	108
Plan member contributions	49
Benefits paid	-225
Actuarial losses	-23
Fair value of plan assets at Dec. 31, 2010	**1,491**

The figures for the current and previous reporting periods since the pension obligations came into existence are as follows:

In € thousand	2010	2009	2008	2007	2006
Benefit obligations	1,687	1,608	1,414	1,152	933
Fair value of plan assets	-1,491	-1,528	-1,303	-997	-840
Deficit	196	80	111	155	93
Actuarial gains/losses	49	91	76	83	-17
Experience adjustments on plan liabilities	50	-16	-40	-1	-2
Experience adjustments on plan assets	23	25	57	-4	23

(54) Income taxes

The major components of the income tax expenses for the 2010 and 2009 fiscal years are as follows:

Income taxes

In € thousand	2010	2009
Actual income taxes:		
R&D tax credit	0	-27
Deferred taxes	0	0
Actual tax income reported in income statement	0	-27

In the reporting period, neither tax expense nor tax income was posted in the income statement. In the preceding year's reporting period, the Group posted a € 27 thousand tax expense which arose from the revision of a tax credit received by the subsidiary MediGene Ltd.

Deferred tax as per December 31, 2010 related to the following items:

Deferred taxes

In € thousand	Consolidated balance sheet		Consolidated income statement	
	Dec. 31, 2010	Dec. 31, 2009	2010	2009
Deferred tax assets				
Deferred taxes on tax loss carryforwards				
Germany	45,354	42,213	3,141	3,298
USA	16,034	15,778	256	188
United Kingdom	1,911	7,194	-5,283	822
	63,299	65,185	-1,886	4,308
non deductible	-60,840	-57,830	-3,010	-3,779
Net	2,459	7,355	-4,896	529
Different useful lives of tangible assets	50	59	-9	-771
Other taxes from grants	1,676	1,704	-28	-642
Derivative financial instruments	59	459	-399	152
Prepaid expenses	23	26	-3	26
Liability pension insurance	268	166	102	10
Valuation of accruals	35	6	29	-2
	2,111	2,420	-308	-1,227
non deductible	-1,741	-1,744	3	652
Net	370	676	-305	-575
Deferred tax liabilities				
Capitalization of acquired licenses	2,665	7,868	5,202	68
Pension accruals	164	163	-1	-22
	2,829	8,031	5,201	46
Deferred tax income/ expenses			0	0
Deferred tax asset/ liabilities (balance)	0	0		

In the years 2010 and 2009, neither tax income nor tax expenses from deferred tax were posted in shareholders' equity.

Tax assets from loss carryforwards are shown to the extent to which deferred tax liabilities exist. Deferred tax assets and liabilities have been balanced against one another if they relate to the same tax authorities and congruent periods.

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

As for the deferred taxes of foreign business segments, the country-specific tax rates were used.

The recognized tax expenses differ from the expected tax expenses which would have resulted from the application of the nominal tax rate for the earnings under IFRS. A reconciliation of the differential effects can be seen in the table below, in which the tax rate applicable in the respective period was applied.

As the subsidiaries have no retained earnings, no deferred tax liabilities are recognized in that respect.

Income taxes

In € thousand	2010	2009
Result before income tax	**-17,869**	**-21,935**
Expected tax income	**4,704**	5,765
Tax credit	**0**	-27
Use of US tax loss carryforwards	**933**	0
Increase of deferred taxes on tax loss carryforwards not posted	**-3,010**	-3,779
Non-deductible impairment of goodwill	**-2,429**	0
Adjustment of accumulated losses brought forward from the previous year	**0**	-1,517
Temporary differences not posted	**3**	652
Non-deductible expenses	**-45**	-529
Difference from UK tax rate	**27**	35
Difference from US tax rate	**-208**	62
Decline in loss carryforwards in USA	**0**	-647
Other	**25**	-15
Actual tax income	**0**	**0**

The tax loss carryforwards relates to the following:

Tax loss carryforwards

In € thousand	Dec. 31, 2010	Dec. 31, 2009
Corporate income tax Germany	**173,054**	161,196
Trade tax Germany	**171,122**	159,086
State tax USA	**41,333**	38,478
Federal tax USA	**40,067**	39,804
Corporate tax UK	**6,826**	25,729

In Germany, tax losses can in principle be carried forward for an unlimited period of time. The deduction of existing loss carryforwards is ruled out in case of detrimental change of shareholders.

The loss carryforwards of the subsidiary MediGene Ltd. in the United Kingdom may be used for an unlimited period provided that it does not lose its tax identity. In contrast, the loss carryforwards at MediGene, Inc. expire between 2016 and 2031. In the USA, tax loss carryforwards resulting from federal tax can be utilized for 20 years, while those based on state tax expire after ten years in principle, unless extension is granted.

(55) Trade accounts payable and other current liabilities
The trade accounts payable amounting to € 2,354 thousand (2009: € 2,452 thousand) as of the end of the reporting period consisted of unpaid invoices issued primarily for services utilized by MediGene. For the maturity analysis of the financial liabilities, please refer to Note (62).

The other liabilities amounting to € 9,488 thousand (2009: € 8,843 thousand) include license payments not yet billed by Tolmar Therapeutics, Inc., Fort Collins, Colorado, USA, amounting to € 6,261 thousand (2009: € 5,153 thousand), bonus payments due totaling € 871 thousand (2009: € 1,040 thousand), severance payments amounting to € 440 thousand (2009: € 737 thousand), and income and church tax liabilities totaling € 361 thousand (2009: € 581 thousand).

(56) Derivative financial instruments
The contract concluded with Astellas for the commercialization of Eligard® includes an embedded currency derivative as it is denominated in US dollars and not in the functional currency of either of the two contracting parties. Gains (losses) from this derivative arise from foreign exchange gains (losses) by the US dollar against the euro and are posted to income as per the end of the period. The embedded derivative is valued on the basis of Astellas orders expected by February 28, 2011. The Eligard® rights were transferred to Astellas effective as of March 1, 2011.

(57) Accruals
In order to comply with the conditions for the market approval of Veregen® imposed by the US Food and Drug Administration, an accrual was made which amounted to € 470 thousand at the end of the previous year. This requirement was fulfilled in the course of the reporting period and utilized in 2010.

(58) Deferred income
Deferred income totaled € 5,088 thousand (2009: € 98 thousand) in the reporting period. It was due mainly to the sale of Eligard® rights to Astellas in July 2010 and the resulting payment of € 5,000 thousand received when the contract was signed.

(59) Contingent liabilities
No accruals existed for the contingent liabilities listed below, as the risk of their being utilized is deemed unlikely.

Within the framework of existing license agreements, MediGene is committed to submitting milestone payments of approximately € 9.5 million to the respective licensors. The management does not believe that accruals need to be formed for this, since the corresponding payments will not become due until certain milestones are reached.

The pro rata financial obligations of Immunocore Ltd. amounted to € 2 thousand (2009: € 58 thousand).

As of the balance sheet date there were deposit guarantees of € 323 thousand (2009: € 322 thousand) to property lessors.

Expenses of € 1,339 thousand were incurred for operating leases (2009: € 1,356 thousand) in the reporting period.

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

In € thousand	Rent and lease payments
2011	1,340
2012	1,281
2013	1,194
2014	1,159
Later	1,799
Minimum lease obligations	**6,773**

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

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

(60) Total amount of unused/open credit lines

In addition to the cash posted under Note (48), no open credit lines were reported as of December 31, 2010.

(61) Related parties

The parties deemed to be related are individuals and/or entities that can be significantly influenced by the Company or can exert significant influence on the Company. Related parties are the Company's Executive Board and Supervisory Board as well as the associates Immunocore Ltd. and Catherex, Inc.

Dr. Thomas Klaue, former CFO of MediGene AG, was a member of the Board of Directors, the supervisory body of the associate Immunocore Ltd. until the end of May 2010. This function was assumed at the end of May 2010 by Arnd Christ, Chief Financial Officer of MediGene AG. Transactions totaling € 49 thousand were conducted between MediGene Ltd. and Immunocore Ltd.

Dr. Frank Mathias, CEO of MediGene AG, and Dr. Uwe Michaelis, MediGene AG's Director of Strategic Investments, were appointed as directors of Catherex, Inc. on May 27, 2010. Transactions totaling € 50 thousand were conducted between MediGene, Inc. and Catherex, Inc.

The remuneration and shareholdings of the Company's Executive and Supervisory Boards are itemized individually for each member of these boards under I) Executive Board and Supervisory Board. In the 2010 fiscal year, there were no further transactions between the Group and related parties.

(62) Objectives and methods of financial risk management

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

The Group additionally has a derivative financial instrument that is embedded in the contract with Astellas regarding the commercialization of the drug Eligard®. The derivative relates to the handling of product deliveries in US dollars, a non-functional currency.

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

Below is a description of the financial risk factors and the associated financial risk management of the Group. The management does not see the following current existing items resulting from financial risks as being significant.

Market risks

Interest rate risk

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

Sensitivity analysis of interest rate risk (cash flows)

	Interest rate change in basis points	Effects on result before income taxes in € thousand
2010	**50**	**39**
2009	50	78

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

Foreign exchange risk

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

The foreign exchange risk refers to revenue in US dollars from Eligard® and Veregen® sales, as well as milestone payments for Veregen® from partner companies. In addition, the costs for purchasing Eligard® and the active ingredient in Veregen®, as well as the license payments to these products' licensors, depend on the exchange rates of foreign currencies. 98% of total revenue earned by the Group is denominated in US dollars. 97% of procurement costs were incurred in US dollars.

The MediGene Group reduces the foreign exchange risks resulting from its subsidiaries' operating activities by utilizing the proceeds generated from products marketed in US dollars to finance the purchase of goods and other activities by the US subsidiary. The following table shows the sensitivity of the Group's result before tax and of shareholders' equity to foreign exchange differences of the euro against the US dollar. All other variables in this statement remain constant.

Sensitivity analysis of foreign exchange risk ($)*)

	Exchange rate development of $	Effects on results before income taxes in € thousand	Effects on shareholders' equity in € thousand
2010	**+5%**	**158**	**158**
	-5%	**-121**	**-121**
2009	+5%	232	232
	-5%	-215	-215

*) Referring to the exchange rate as per closing date December 31.

At Group level, the operating activities of the subsidiaries and the assets and liabilities allocated accordingly lead to foreign exchange risks. The change in value of the British pound against the euro has had the greatest influence on the stated assets of MediGene Ltd. They include not only the goodwill allocated to the Company until the end of August 2010 and the intangible assets, but also the shares held in an associate. In addition, a monetary item in the form of an account receivable from foreign subsidiaries (net investment in a foreign business operation) has in the past been subject to foreign currency fluctuation. This account receivable no longer existed at the end of the reporting period.

Sensitivity analysis of foreign exchange risk (£)*)

	Exchange rate development of £	Effects on results before income taxes in € thousand	Effects on shareholders' equity in € thousand
2010	**+5%**	**-36**	**-36**
	-5%	**40**	**40**
2009	+5%	101	1.917
	-5%	-111	1.974

*) Referring to the exchange rate as per closing date December 31.

Securities-related share price risks

The Group is currently not exposed to any risk of changes in share prices.

Credit risk

The Group has no significant concentrations with regard to possible credit risks. There are relationships with two major customers, Astellas and Nycomed US, Inc., Melville, New York, USA. The creditworthiness of the customers in question is monitored using the publicly accessible financial reports and analyses and the consolidated financial statements.

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

Liquidity risk

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

As of December 31, 2010, the Group's financial liabilities had the maturities shown below. These are disclosed on the basis of contractual, undiscounted payments.

Financial liabilities

	Maturity					
In € thousand	up to 30 days	30-90 days	3-12 months	1-5 years	> 5 years	Total
Balance at Dec. 31, 2010						
Trade accounts payable	1,897	457	0	0	0	**2,354**
Financial liabilities	0	0	0	2	0	**2**
Other current liabilities	717	8,507	264	0	0	**9,488**
Deferred income	0	5,002	8	10	68	**5,088**
Total	**2,614**	**13,966**	**272**	**12**	**68**	**16,932**
Balance at Dec. 31, 2009						
Trade accounts payable	2,340	112	0	0	0	**2,452**
Financial liabilities	0	0	9	0	0	**9**
Other current liabilities	629	7,961	253	0	0	**8,843**
Deferred income	0	2	8	10	78	**98**
Total	**2,969**	**8,075**	**270**	**10**	**78**	**11,402**

Capital control

The primary goal of MediGene's management is to secure sufficient liquidity to finance ongoing research and development programs. The most important control variable aside from the absolute amount of cash and cash equivalents is the liquidity cover ratio, i.e. the proportion of total assets accounted for by cash, cash equivalents, and securities. A sufficiently high equity ratio is needed to make flexible use of the equity and debt financing options on the market.

Key figures for capital control

		2010	2009
Liquidity cover ratio in %	$\frac{\text{Cash x 100}}{\text{Balance sheet total}}$	**8**	19
Equity ratio in %	$\frac{\text{Equity x 100}}{\text{Balance sheet total}}$	**70**	79

(63) Other financial assets and liabilities including the hierarchy of fair values

The following table shows the carrying amounts and fair values of all financial instruments recorded in the consolidated financial statements as per December 31, 2010:

Other financial assets and liabilities

In € thousand	Carrying amount		Fair value	
	2010	2009	2010	2009
Financial assets				
Cash and cash equivalents	**4,770**	12,251	**4,770**	12,251
Trade accounts receivable	**4,516**	749	**4,516**	749
Available-for-sale financial assets	**153**	152	**153**	152
Financial liabilities				
Financial debt	**2**	9	**2**	9
Derivative financial instruments	**226**	1,743	**226**	1,743
Trade accounts payable and other current liabilities including deferred income	**16,930**	11,393	**16,930**	11,393

Financial assets capitalized in connection with pension commitments and totaling € 153 thousand (2009: € 152 thousand) are allocated to the held-for-sale category of financial assets (see Notes (12) and (44)).

Embedded derivatives totaling € 226 thousand (2009: € 1,743 thousand) are financial liabilities stated at fair value and affect net income.

Gains or losses from these two categories are stated with effect on net income in the income statement. There are no further classifications.

Hierarchy of fair values

The Group uses the following hierarchy to determine and show fair values of financial instruments for each valuation procedure:

Stage 1: Listed (unadjusted) prices on active markets for similar assets or liabilities;

Stage 2: Procedures in which all the input parameters that have a significant effect on the recorded fair value can be observed either directly or indirectly;

Stage 3: Procedures that use input parameters that have a significant effect on the recorded fair value and are not based on observable market data.

The first stage includes the fund shares shown under available-for-sale financial assets which are valued at the stock market price as per the closing date. The fair value of the derivative financial instrument which is determined on the basis of existing Eligard® orders and orders forecast by the partner is part of the second stage. The fair value of convertible bonds has in the past been allocated to the third stage. It was determined with the help of the binomial model using market interest rates.

(64) Major events since the end of the reporting period

The following major events in corporate development occurred since closing date:

Conclusion of further marketing partnerships for Veregen®

Early in 2011, MediGene opened up new markets for the drug Veregen® by concluding a number of marketing partnerships agreements. These agreements were concluded with Laboratoires Expanscience for France, Meditrina Pharmaceuticals Ltd. for Romania and Bulgaria, and Pierre Fabre Medicament for Mexico, Central America, Venezuela, and Colombia as well as Will-Pharma for Belgium, the Netherlands and Luxembourg.

Transfer of Eligard® rights for EU countries to Astellas

Effective from March 1, 2011, MediGene transferred the exclusive rights to Eligard® for the EU member states to Astellas. On March 3, 2011, the second payment from Astellas agreed in the contract concluded in July 2010 was made to MediGene, amounting to € 15 million. Since March 1, 2011, MediGene is entitled to a two percent participation in Eligard® net sales. For MediGene AG, all future costs and obligations associated with the supply of Astellas with Eligard® have ceased.

F) Consolidated statement of changes in shareholders' equity

The consolidated statement of changes in shareholders' equity for the 2010 and 2009 fiscal years forms a separate part of the consolidated financial statements.

G) Notes on the cash flows

The statement of cash flows shows the origins and application of the cash flows in the 2010 and 2009 fiscal years. It is therefore of crucial significance for assessing the Company's financial position.

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

Within the scope of non-cash financing activities, no new lease obligations were entered into in 2010 for laboratory and office equipment.

Cash and cash equivalents at the end of the period consisted solely of cash and cash equivalents in accordance with IAS 7.7. The cash and cash equivalents illustrated in the cash flow statement correspond to the »cash and cash equivalents« item in the consolidated balance sheet.

H) Segment reporting

Business units

From a global point of view, the Group was made up of two main business units as of December 31, 2010. The business units »Marketed Products« and »Drug Candidates« identified within the Group in accordance with IFRS 8 consist of the following:

Marketed Products

- Eligard® for the treatment of hormone-dependent, advanced prostate cancer (discontinued operations)
- Veregen® for the treatment of genital warts

Drug Candidates & technologies

- EndoTAG®-1 for the treatment of solid tumors
- RhuDex® for the treatment of autoimmune diseases such as rheumatoid arthritis
- oHSV for the treatment of various types of cancer (until mid-December 2010)
- oHSV technology (until mid-December 2010)
- AAVLP technology

Revenue earned by the individual segments is generated by external business relationships.

Transfer prices between the business units and regions are determined on the basis of the usual market terms among third parties.

Investment in associates amounting to € 5,059 thousand (2009: € 1,961 thousand) are shown in segment reporting under »Reconciliation«.

Segment reporting by business units

In € thousand	Marketed Products	Drug Candidates	Total segments	Reconciliation[1]	Adjustments discontinued operation	Total
2010						
Revenue with external customers	49,612	0	49,612	0	-47,398	**2,214**
Other income	0	76	76	2	0	**78**
Inter-segment sales[2]	422	85	507	-453	-54	**0**
Total revenue	**50,034**	**161**	**50,195**	**-451**	**-47,452**	**2,292**
Segment operating result[3]	**6,317**	**-25,615**	**-19,298**	**-451**	**-7,845**	**-27,594**
Depreciation and impairment	-2	-9,952	-9,954	-107		**-10,061**
Share of result of associates	0	0	0	46		**46**
Assets						
Investment in associates	0	0	0	5,059		**5,059**
Segment investments[4]	0	249	249	72		**321**
Segment assets[5]	**6,209**	**34,098**	**40,307**	**17,894**		**58,201**
Segment liabilities[6]	**5,314**	**0**	**5,314**	**12,089**		**17,403**
2009						
Revenue with external customers	37,778	0	37,778	0	-36,681	**1,097**
Other income	0	1,658	1,658	30	0	**1,688**
Inter-segment sales[2]	882	509	1,391	-1,332	-59	**0**
Total revenue	**38,660**	**2,167**	**40,827**	**-1,302**	**-36,740**	**2,785**
Segment operating result[3]	**3,145**	**-21,423**	**-18,278**	**-1,302**	**-5,713**	**-25,293**
Depreciation	-4	-694	-698	-133		**-831**
Share of result of associates	0	0	0	-1,625		**-1,625**
Assets						
Investment in associates	0	0	0	1,961		**1,961**
Segment investments[4]	1	246	247	216		**463**
Segment assets[5]	**2,204**	**41,775**	**43,979**	**21,744**		**65,723**
Segment liabilities[6]	**1,841**	**0**	**1,841**	**12,009**		**13,850**

[1] Segment »Reconciliation« includes information that can be allocated to neither the »Marketed Products« segment nor the »Drug Candidates« segment, as it does not depict any activities of its own.

[2] Inter-segment sales are eliminated for consolidation purposes.

[3] Segment operating result does not include any interest income (2010: € 26 thousand; 2009: € 129 thousand), any interest expense (2010: € 1 thousand; 2009: € 5 thousand), any foreign exchange gains or losses (2010: € 346 thousand; 2009: € -519 thousand), any income from financial assets (2010: € 0; 2009: € 302 thousand), or any share of gain or loss of associates (2010: € 46 thousand; 2009: € -1,625 thousand). Segment operating result includes gains from inter-segment sales (2010: € 507 thousand; 2009: € 1,391 thousand).

[4] Segment investments relate to additions to property, plant, and equipment and intangible assets.

[5] Segment assets under »Reconciliation« include in part non-current assets (2010: € 6,176 thousand; 2009: € 3,179 thousand), cash and cash equivalents (2010: € 4,770 thousand; 2009: € 12,251 thousand), and other current assets (2010: € 6,948 thousand; 2009: € 6,314 thousand).

[6] Segment liabilities under »Reconciliation« include non-current liabilities (2010: € 247 thousand; 2009: € 244 thousand), trade accounts payable and other liabilities (2010: € 11,842 thousand; 2009: € 11,295 thousand), and accruals (2010: € 0; 2009: € 470 thousand).

Geographic or regional segments

The Group operates in Germany, the USA, and the United Kingdom.

Revenue with external customers

In € thousand	2010	2009
UK	47,398	36,681
USA	1,114	971
Other	1,100	207
Total	49,612	37,859

Information about segment revenue is arranged according to the customer's headquarter location. In the »Marketed Products« segment, revenue from discontinued operations with the main customer in United Kingdom totaled € 47,398 thousand.

Non-current assets

In € thousand	2010	2009
UK	29,789	27,557
USA	2	9,231
Other	5,267	6,050
Total	35,058	42,838

The non-current assets shown in the table encompass property, plant, equipment, intangible assets, and goodwill.

(65) Legal disputes and appeals

In July 2008, following the death of a subject who participated in a trial of the drug candidate RhuDex®, the Crown Office and Procurator Fiscal Service in Edinburgh, United Kingdom, initiated a routine investigation, which was concluded in November 2009. There is also the possibility that a civil action might be initiated on the part of the subject's family. In light of the results of the investigation concluded so far, the Executive Board considers the probability of such a suit to be extremely small.

In June 2010, a third party appealed the granting of European Patent No. EP 1530465 to MediGene AG. The patent relates to the manufacturing process for EndoTAG®-1 and to compounds that can be manufactured using this process. A first-instance ruling by the European Patent Office is anticipated in 2012 or 2013. MediGene expects the patent to be upheld to an extent that the product EndoTAG®-1 remains protected.

With the exception of the aforementioned appeal proceedings, no legal disputes that could have a major influence on the Company's financial situation or that of its subsidiaries has been pending in the last twelve months, nor is there currently a threat of any such dispute.

(66) German Corporate Governance Code

MediGene's Executive and Supervisory Boards confirmed on December 10, 2010 that MediGene AG complies with most of the recommendations of the German Corporate Governance Code as amended on June 18, 2009, and May 26, 2010. The recommendations of the Code that MediGene AG does not implement are each explained in the Declaration of Compliance in accordance with Section 161 of the German Stock Corporation Act (AktG). This declaration is permanently available on the Company's website (http://www.medigene.de/E_corporate_governance_erklaerung/161/) in English and German. MediGene AG's Corporate Governance Report can be found on page 100 et seqq.

(67) Auditing fees

The auditors and Group auditors were paid the following fees for the 2010 fiscal year:

Auditing fees

In € thousand	2010	2009
Auditing services	148	172
Tax consulting services	27	13
Other services	52	92
Total	227	277

I) Executive Board and Supervisory Board

(68) Executive Board

Changes to the Executive Board

The Supervisory Board appointed Arnd Christ to the Executive Board of MediGene AG with effect from April 17, 2010. He took over as Chief Financial Officer from Dr. Thomas Klaue who left the Executive Board on that date.

Remuneration of the Executive Board

Remuneration of members of the Executive Board in the past fiscal year totaled € 997 thousand (2009: € 3,077 thousand), including pension expenses of € 52 thousand (2009: € 104 thousand) and vehicle leasing costs of € 22 thousand (2009: € 39 thousand). The high level of expenditure in 2009 was due mainly to bonus, severance and continued remuneration payments totaling € 1,722 thousand. In addition, stock options with a fair value of € 56 thousand (2009: € 152 thousand) were issued to the Executive Board.

Pursuant to point 2.2.1 (II) of the German Corporate Governance Code, the Annual General Meeting may pass a resolution approving the remuneration system of the Executive Board members. A resolution regarding the future remuneration system was passed for the first time at the Annual General Meeting on May 11, 2010. It was adopted by 96%.

Total remuneration of the Executive Board members is comprised of fixed and variable components, as well as other remuneration. Variable remuneration includes annual performance-based payment and stock options. The criteria for the annual performance-based payment are established by the Supervisory Board annually in advance. Objectives geared to sustainable and long-term corporate success as well as stock options represent long-term incentives. By delaying payment of a part of the annual compensation for three years, and subsequent review and decision-making by the Supervisory Board whether and to what extent a sustainably positive corporate development can be affirmed, additional incentives for future Executive Board member employment contracts shall be created.

The Supervisory Board may reward any extraordinary accomplishments of the Executive Board members by payment of a special bonus.

The employment contract of the CEO, Dr. Frank Mathias, contains provisions that entitle him as an Executive Board member to severance pay in certain circumstances if his contract is terminated. This would apply, for example, if he were to terminate the contract for cause, with the reasons of this termination being attributable to the Company (»special termination«).

The amount to which he is entitled by way of compensation is 1.5 times his gross monthly salary for each full year he has served as an Executive Board member, but no less than six months' and not exceeding 36 months' gross monthly salary. By the terms of a contractual amendment dated October 25, 2010, CEO Dr. Frank Mathias' entitlement to a severance payment is further limited to a maximum of € 750 thousand.

Dr. Thomas Klaue's employment contract included a comparable arrangement. None has been agreed for Arnd Christ.

In the 2010 fiscal year, MediGene paid € 6 thousand (2009: € 6 thousand) into a benevolent fund for a pension commitment to a former Executive Board member.

Executive Board compensation 2010

Executive Board member	Fixed compensation in € thousand	Variable and performance based compensation[1] in € thousand	Fringe benefit[2] in € thousand	Variable compensation in the form of stock options	
				Number of stock options	Fair value of options in € thousand
Dr. Frank Mathias Chief Executive Officer, Pharmacist, Munich, Germany	355	213	38	35,000	32
Dr. Thomas Klaue Chief Financial Officer (until April 17, 2010) Chemical process engineer and business economist, Pullach, Germany	90	55	19	11,680	11
Arnd Christ Chief Financial Officer (since April 17, 2010) Degree in business administration, Krailling, Germany	145	65	17	14,278	13
Total	**590**	**333**	**74**	**60,958**	**56**

[1] On the basis of the accruals for 2010 including special bonus.
[2] Fringe benefits include pension expenses, and vehicle leasing for the members of the Executive Board.

(69) Supervisory Board

Remuneration of the Supervisory Board

Supervisory Board remuneration amounted to € 261 thousand in 2010 (2009: € 221 thousand). The Supervisory Board members' total remuneration consists of fixed remuneration and fees for attending meetings. In addition, expenses are reimbursed. Both the chairmanship and deputy chairmanship of the Supervisory Board are taken into account in the evaluation of the Supervisory Board members' scope of activities. Disclosures on the subscription rights of members of the Supervisory and Executive Boards are shown under Note (70). No advance payments were granted to members of the Supervisory and Executive Boards.

Supervisory Board compensation 2010

Supervisory Board member	Fixed compensation in € thousand	Fees for attending meetings in € thousand
Prof. Dr. Ernst-Ludwig Winnacker Chairman	48	25
Prof. Dr. Norbert Riedel Deputy Chairman	36	19
Dr. Pol Bamelis Member	24	13
Sebastian Freitag Member (until September 30, 2010)	18	7
Dr. Mathias Albert Boehringer Member	24	13
Dr. Thomas Werner Member (since February 2, 2010)	22	12
Total	172	89

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

Prof. Dr. Ernst-Ludwig Winnacker
since November 26, 1996
Chairman of the Supervisory Board
Secretary General of Human Frontier Science Program (HFSP), Strasbourg, France

Prof. Dr. Norbert Riedel
since October 27, 2003
Deputy Chairman of the Supervisory Board
Corporate Vice President, Chief Scientific Officer, Baxter International, Inc., Deerfield, Illinois, USA

Dr. Pol Bamelis
since May 23, 2001
former Executive Board member, Bayer AG, Leverkusen, Germany

Sebastian Freitag (until September 30, 2010)
since June 10, 2005
Investment banker, Frankfurt, Germany

Dr. Mathias Albert Boehringer
since July 16, 2008
Degree in business administration, Ingelheim, Germany

Dr. Thomas Werner
since February 2, 2010
Freelance management consultant, Utting am Ammersee, Germany

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

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

Prof. Dr. Norbert Riedel
- Oscient Pharmaceuticals, Inc., USA (until June 29, 2010)

Dr. Pol Bamelis
- Actogenix N.V., Belgium
- PolyTechnos, Ltd., Guernsey, United Kingdom
- Recticel, Belgium
- Sioen N.V., Belgium
- Hemacon GmbH, Düsseldorf, Germany (since July 1, 2010)

Sebastian Freitag (until September 30, 2010)
- Wyser-Pratte EuroValue Fund Ltd., Cayman Islands
- BEKON Holding AG, Unterföhring, Germany (since June 9, 2010)

Dr. Mathias Albert Boehringer
- Boehringer Ingelheim shareholders' committee, Ingelheim, Germany
- Phenex Pharmaceutical AG, Ludwigshafen, Germany
- Phorms Management AG, Berlin, Germany (since June 1, 2010)

Dr. Thomas Werner (since February 2, 2010)
- Pharma Swiss AG, Switzerland
- 4SC AG, Munich, Germany
- CM&D Pharma Ltd., United Kingdom
- SkyePharma plc., United Kingdom
- Accera Inc., USA

Dr. Frank Mathias
- Catherex, Inc., USA (since May 27, 2010)

Arnd Christ (since April 17, 2010)
- Immunocore Ltd., United Kingdom (since May 25, 2010)
- DNS Beteiligungsgesellschaft mbH, Bessenbach, Germany

Dr. Thomas Klaue (until April 17, 2010)
- Immunocore Ltd., United Kingdom (until May 25, 2010)

(70) Directors' holdings and notes on subscription rights

Member	Shares		Options	
	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Prof. Dr. Ernst-Ludwig Winnacker Chairman of Supervisory Board, Co-founder	**274,476**	274,476	**0**	0
Prof. Dr. Norbert Riedel Vice Chairman of Supervisory Board	**3,300**	3,300	**0**	0
Dr. Pol Bamelis Supervisory Board member	**400**	400	**0**	0
Sebastian Freitag Supervisory Board member (until September 30, 2010)	**2,500**	2,500	**0**	0
Dr. Mathias Albert Boehringer Supervisory Board member	**0**	0	**0**	0
Dr. Thomas Werner Supervisory Board member (since February 2, 2010)	**0**	–	**0**	–
Total Supervisory Board	**280,676**	**280,676**	**0**	**0**
Dr. Frank Mathias Chief Executive Officer	**2,000**	0	**92,500**	57,500
Dr. Thomas Klaue Chief Financial Officer (until April 17, 2010)	**4,500**	4,500	**77,513**	65,833
Arnd Christ Chief Financial Officer (since April 17, 2010)	**0**	–	**14,278**	–
Total Executive Board	**6,500**	**4,500**	**184,291**	**123,333**

(71) Notification in accordance with Section 21 of the German Securities Trading Act (WpHG) and publication in accordance with Sections 25 and 26 of the German Securities Trading Act (WpHG)

The MLawGroup, Munich, Germany, notified MediGene AG on March 26, 2010 on behalf of its client Advent Management III Ltd. Partnership, Edinburgh, United Kingdom, that Advent Management III Ltd. Partnership's shareholding in MediGene AG exceeded the 5% threshold on December 11, 2006 and at the time of notification amounted to 8.1985% of MediGene AG stock, or 2,348,965 votes. Of these, 2,348,965 votes – corresponding at the time to 8.1985% of the voting rights – were attributable to Advent Management III Ltd. Partnership in accordance with Section 22 (I) (1) (2) in conjunction with Section 22 (I) (2) of the German Securities Trading Act (WpHG).

Of the aforementioned voting rights attributable to Advent Management III Ltd. Partnership, 2,348,965 votes – corresponding at the time to 8.1985% of the voting rights – were held by Mr. Rainer Kreifels. The MLawGroup also notified MediGene AG on March 26, 2010 that the share of MediGene AG voting rights held by Advent Management III Ltd. Partnership had reached no further threshold since December 11, 2006 and amounted to 6.7598% thereof as of March 24, 2010. This figure corresponds to 2,403,610 voting rights.

The MLawGroup, Munich, Germany, notified MediGene AG on March 26, 2010 on behalf of its client Advent Management III Ltd., Edinburgh, United Kingdom, that the shareholding of Advent Management III Ltd. in MediGene AG exceeded the 5% threshold on December 11, 2006 and at the time of notification amounted to 8.1985% of MediGene AG stock, or 2,348,965 votes. Of these, 2,348,965 votes – corresponding at the time to 8.1985% of the voting rights – were attributable to Advent Management III Ltd. in accordance with Section 22 (I) (1) (2) in conjunction with Section 22 (I) (2) of the German Securities Trading Act (WpHG).

Of the aforementioned voting rights attributable to Advent Management III Ltd., 2,348,965 votes – corresponding at the time to 8.1985% of the voting rights – were held by Mr. Rainer Kreifels.

The MLawGroup also notified MediGene AG on March 26, 2010 that the share of MediGene AG voting rights held by Advent Management III Ltd. had reached no further threshold since December 11, 2006 and amounted to 6.7598% thereof as of March 24, 2010. This figure corresponds to 2,403,610 votes.

The MLawGroup, Munich, Germany, notified MediGene AG on March 26, 2010 that it was correcting its previous voting rights notification of April 4, 2007 on behalf of its client Advent Venture Partners LLP (hereinafter referred to as »Advent Ventures«), London, United Kingdom. Advent Ventures' share of voting rights in MediGene AG exceeded the 5% threshold on December 11, 2006 and at that time amounted to 8.1985%. This figure corresponds to 2,348,965 votes. Of these, 2,348,965 votes – corresponding at the time to 8.1985% of the voting rights – were attributable to Advent Ventures in accordance with Section 22 (I) (1) (2) in conjunction with Section 22 (I) (2) of the German Securities Trading Act (WpHG).

Of the aforementioned voting rights attributable to Advent Ventures, 2,348,965 votes – corresponding at the time to 8.1985% of the voting rights – were held by Mr. Rainer Kreifels. The MLawGroup also notified MediGene AG on March 26, 2010 that the share of MediGene AG voting rights held by Advent Ventures had reached no further threshold since December 11, 2006 and amounted to 6.7598% thereof as of March 24, 2010. This figure corresponds to 2,403,610 votes.

Mr. Rainer Kreifels, Germany, notified MediGene AG on March 26, 2010 that he was correcting his previous voting rights notification of April 4, 2007. On December 11, 2006, the share of voting rights in MediGene AG held by Rainer Kreifels exceeded the 5% and 10% thresholds, amounting on that day to 23.758%, or 6,806,950 votes. In accordance with Section 21 (I) German Securities Trading Act (WpHG) his share of the voting rights in MediGene AG fell below the 10% threshold again on January 16, 2007, amounting at that time to 9.699%. This figure corresponds to 2,778,959 votes.

Mr. Rainer Kreifels, Germany, notified MediGene AG on March 26, 2010 that his share of the voting rights in MediGene AG fell below the 5% and 3% thresholds on March 24, 2010, amounting from that day on to 0.1083%. This corresponds to 38,523 votes.

Syngenta AG, 4002 Basel, Switzerland, notified MediGene AG on November 11, 2010 that its share of the voting rights in MediGene AG fell below the 3% threshold on November 10, 2010 and now amounts to 0%. This corresponds to 0 votes.

Syngenta Crop Protection AG, 4002 Basel, Switzerland, notified MediGene AG on November 11, 2010 that its share of the voting rights in MediGene AG fell below the 3% threshold on November 10, 2010 and now amounts to 0%. This corresponds to 0 votes.

Syngenta AG, 4002 Basel, Switzerland, notified MediGene AG on November 25, 2010 that it was correcting its voting rights notification of November 15, 2010. Syngenta AG's share of voting rights in MediGene AG fell below the 3% threshold on October 12, 2010 and amounted to 2.94% on the day it passed the threshold. This corresponds to 1,091,576 votes. Of these, 2.94% (1,091,576 votes) are attributable to it in accordance with Section 22 (I) (1) (2) in conjunction with Section 22 (I) (2) of the German Securities Trading Act (WpHG).

Syngenta Crop Protection AG, 4002 Basel, Switzerland, notified MediGene AG on November 25, 2010 that it was correcting its voting rights notification of November 15, 2010. Syngenta Crop Protection AG's share of voting rights in MediGene AG fell below the 3% threshold on October 12, 2010 and amounted to 2.94% on the day it passed the threshold. This corresponds to 1,091,576 votes.

Disclosures of aggregate voting rights in accordance with Section 26a of the German Securities Trading Act (WpHG):
As of the respective reporting dates, MediGene AG disclosed the following aggregate numbers of voting rights: a total of 36,132,205 voting rights on March 31, 2010, a total of 36,494,523 voting rights on May 31, 2010, and a total of 37,082,758 voting rights on June 30, 2010.

THE EXECUTIVE BOARD

Planegg/Martinsried, Germany, March 16, 2011
MediGene AG

Dr. Frank Mathias
Chief Executive Officer

Arnd Christ
Chief Financial Officer

Consolidated statement of changes in fixed assets

of MediGene AG for the period January 1 to December 31, 2010

In € thousand	Initial cost					
	Jan. 1, 2010	Currency translation adjustments	Addition	Disposal	Dec. 31, 2010	
Property, plant & equipment	7,011	8	321	-307	7,033	
Intangible assets	33,121	2,085	0	-238	34,968	
Goodwill	14,046	166	0	-11,071	3,141	
Total	**54,178**	**2,259**	**321**	**-11,616**	**45,142**	

of MediGene AG for the period January 1 to December 31, 2009

In € thousand	Initial cost					
	Jan. 1, 2009	Currency translation adjustments	Addition	Disposal	Dec. 31, 2009	
Property, plant & equipment	6,838	-3	297	-121	7,011	
Intangible assets	30,687	2,268	166	0	33,121	
Goodwill	13,864	182	0	0	14,046	
Total	**51,389**	**2,447**	**463**	**-121**	**54,178**	

Accumulated depreciation					Carrying amount	
Jan. 1, 2010	Currency translation adjustments	Addition	Disposal	Dec. 31, 2010	Dec. 31, 2010	Dec. 31, 2009
5,948	8	389	-272	6,073	960	1,063
2,618	18	446	0	3,082	31,886	30,503
2,774	0	9,226	-11,071	929	2,212	11,272
11,340	**26**	**10,061**	**-11,343**	**10,084**	**35,058**	**42,838**

Accumulated depreciation					Carrying amount	
Jan. 1, 2009	Currency translation adjustments	Addition	Disposal	Dec. 31, 2009	Dec. 31, 2009	Dec. 31, 2008
5,687	-3	385	-121	5,948	1,063	1,151
2,176	-4	446	0	2,618	30,503	28,511
2,774	0	0	0	2,774	11,272	11,090
10,637	**-7**	**831**	**-121**	**11,340**	**42,838**	**40,752**

Auditors' report

We have audited the consolidated financial statements prepared by MediGene AG, Martinsried/Planegg, comprising the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated 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, 2010 to December 31, 2010. 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. 315a (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 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. 315a (1) HGB 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 16, 2011

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Napolitano
German Public Auditor

Breyer
German Public Auditor

Responsibility Statement

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

Planegg/Martinsried, March 16, 2011

The Executive Board

Dr. Frank Mathias Arnd Christ

Report of the Supervisory Board

During the 2010 fiscal year, the Supervisory Board performed the duties it is charged with under the law and according to the Articles of Incorporation fully and with great care. On the basis of verbal and written reports by the Executive Board, the Supervisory Board continuously monitored the Company's management and regularly advised the Executive Board on related issues. The Supervisory Board was directly involved in all decisions that were of critical significance for the Company.

In addition to the reporting which took place during regular Supervisory Board Meetings, the Executive Board routinely issued both written and verbal reports on the current status of research and development projects, the Company's economic status and business development position, corporate planning, major business transactions, and fundamental matters of corporate policy including the Company's strategic and organizational focus, cost and earnings trends, investment measures, and financial planning. This was done in a timely and comprehensive manner.

The Supervisory Board continuously and attentively observed, monitored, and reviewed the Company's risk situation and its risk management, and ensured that the Company was managed in conformity with the law. Any deviations of business activities from plans and objectives were explained in detail to the Supervisory Board, and the Executive Board discussed and agreed on the Company's strategic focus with the Supervisory Board. All business transactions of importance to the Company were explored in detail during the Supervisory Board plenary sessions. Information on the risk management system implemented by the Company is provided in the risk report of the Annual Report.

Supervisory Board meetings

The Supervisory Board has carried out its duties on the basis of the Executive Board's detailed verbal and written reports, which provide topical and comprehensive information. During the 2010 fiscal year, five Supervisory Board meetings (March 11, 2010, May 11, 2010, July 23, 2010, September 28, 2010, and December 10, 2010) as well as a number of additional conference calls were held. No member of the Supervisory Board participated in less than half of the meetings. In 2011, prior to the meeting that approved the financial statements on March 16, an additional Supervisory Board telephone conference took place on February 4, 2011. When required, resolutions were documented in writing. Employees of the Company or external experts were brought in to consult on special topics. The Supervisory Board was also available to discuss matters one-on-one with the Executive Board. The Chairman of the Supervisory Board usually spoke with the CEO at least once a week, keeping himself and his Supervisory Board colleagues updated about major business transactions, and offering advice and support to the Executive Board.

The Executive Board informed the Supervisory Board without delay about all projects and plans of particular importance for the Company in between meetings as well. Any legal transactions which were subject to approval were presented in a timely manner for the purpose of passing appropriate resolutions.

All business transactions submitted to the Supervisory Board requiring either statutory approval or approval pursuant to the Articles of Incorporation were discussed in depth with the Executive Board. Revenue, earnings, and employment trends were the topics of regular plenary discussions. The Supervisory Board directed its particular attention not only to the economic situation and current business development but also to the finalization of the EndoTAG®-1 package, including the analysis of the phase II clinical trial in triple negative breast cancer and the shift in manufacturing process from freeze-drying to spray-drying, and the further development of the drug candidate RhuDex®. In marketing, the development of Veregen® sales and the sale of the European Eligard® rights to Astellas were of particular significance for the Supervisory Board. Moreover, the Supervisory Board supported the Executive Board in its reorganization measures implemented in September 2010, and in its activities to strengthen the Company's pipeline.

Furthermore, the Supervisory Board also took personnel decisions concerning the Executive Board in the 2010 fiscal year. Effective from April 17, 2010, the Supervisory Board appointed Arnd Christ to the Executive Board. He succeeds Dr. Thomas Klaue as Chief Financial Officer, who resigned from office at this date.

During its meeting on March 11, 2010, the Supervisory Board primarily dealt with the annual and consolidated financial statements as of December 31, 2009. Also in this meeting, the objectives for the 2010 fiscal year were set and the bonuses granted in connection with the achievement of the set objectives were defined. Moreover, the individual project managers presented to the Supervisory Board the progress made in the development projects. Finally, the Supervisory Board dealt with the agenda for the Annual General Meeting on May 11, 2010.

On May 11, 2010, the Supervisory Board meeting took place immediately after the Annual General Meeting. After each Supervisory Board member had been confirmed in office by the Annual General Meeting, the Supervisory Board first elected

Prof. Dr. Ernst-Ludwig Winnacker as Chairman of the Supervisory Board and Prof. Dr. Norbert Riedel as Vice Chairman of the Supervisory Board. The committees were then reconstituted. Sebastian Freitag, Dr. Mathias Boehringer, and Dr. Thomas Werner were elected to the Audit Committee; Prof. Dr. Ernst-Ludwig Winnacker, Prof. Dr. Norbert Riedel, and Dr. Pol Bamelis were elected to the Compensation Committee; Prof. Dr. Ernst-Ludwig Winnacker, Dr. Pol Bamelis, and Sebastian Freitag were elected to the SEDA Committee. Further details regarding the duties and composition of the Supervisory Board committees are reported in the section »Supervisory Board Committees«, page 97 et seq.

The focus of the meeting on July 23, 2010 was on the Company's financial situation in association with strategic considerations for future business activities. Alongside the current projects and their progress, possible scenarios to strengthen the pipeline were also discussed.

During the September 28, 2010 session, the advances made over the preceding months were discussed intensively. Not only the achievement of important milestones in the EndoTAG®-1 project (finalization of the phase II clinical trial in triple negative breast cancer, successful development of a new manufacturing process), but also the sale of the European Eligard® rights to Astellas in particular will have a significant impact on the future financial situation of the Company. On the occasion of this meeting, the Executive Board also presented its recommendation regarding the adjustment of the Company organization to the new business requirements, including restructuring. In a conference call held on September 29, 2010, the Supervisory Board followed this recommendation and passed a resolution on the Company's reorganization. The resolution included, among other things, a headcount reduction from 107 to about 55 employees, and to propose at the next Annual General Meeting that MediGene's Supervisory Board should be downsized in order to adjust to the new Company size. In light of the milestones achieved and once the reorganization measures have been fully implemented, plans have been made to strengthen the Company in preparation for an anticipated strategic transaction. As Supervisory Board member Sebastian Freitag resigned from office with effect from September 30, 2010, it was necessary to make new appointments to fill his committee positions. Dr. Thomas Werner was elected to the Audit Committee, Dr. Mathias Boehringer took the chair of the Audit Committee, and in the SEDA Committee Sebastian Freitag was replaced by Dr. Mathias Boehringer.

During the December 10, 2010 session, budget planning for 2011 was thoroughly discussed, and the budget for the upcoming fiscal year was adopted. The Executive Board informed the Supervisory Board in detail about the progress in the Management's activities to strengthen the pipeline. In the absence of the Executive Board members, the Supervisory Board also discussed questions regarding the achievement of objectives for 2010 and the Executive Board remuneration. The Executive Board remuneration system was reviewed by the Supervisory Board plenum and was found to be appropriate. A detailed comment on the extent and structure of remuneration is provided in the remuneration report (pages 32 et seq. and 88 et seqq. of the Annual Report). The Supervisory Board also discussed the amendments to the German Corporate Governance Code and the contents of the declaration of compliance during this session. In this connection, the Supervisory Board passed a resolution that the diversity criterion should be observed when appointing future Executive Board members, in particular with regard to adequate consideration of female candidates. The Supervisory Board also named specific goals with regard to its future composition, and passed a resolution that the diversity criterion should be observed when nominating future Supervisory Board members at the Annual General Meeting, in particular with regard to adequate consideration of female candidates.

Supervisory Board committees

A Compensation Committee, an Audit Committee, and a SEDA Committee existed throughout the 2010 fiscal year.

The first two committees each held meetings four times during the course of the year 2010. Meetings of the Compensation Committee take place regularly following ordinary Supervisory Board meetings. The Audit Committee sat twice after an ordinary meeting and twice separately. The SEDA Committee held three telephone conferences.

The duties of the Compensation Committee cover matters related to the employment of Executive Board members. Its main tasks are the conclusion and modifications of the Executive Board members' employment contracts, and the fixing of their remuneration. Key topics for consultation included the resignation of CFO Dr. Thomas Klaue and the appointment of his successor Arnd Christ to the Executive Board. Another issue was the renewal of the employment contract for Dr. Frank Mathias by another three years. Due to the importance of these personnel issues, the discussions and decisions in this regard were taken by the entire Supervisory Board. The Compensation Committee is comprised of Prof. Dr. Ernst-Ludwig Winnacker (chairman), Dr. Pol Bamelis, and Prof. Dr. Norbert Riedel.

The members of the Audit Committee deal with issues relating to accounting and risk management, the required independence of the auditor, issuing the audit assignment to the auditor, determining audit priorities, and agreeing on the audit fee. The Audit Committee obtained the auditor's declaration of impartiality pursuant to subparagraph 7.2.1 of the German Corporate Governance Code and monitored the auditor's impartiality. In the presence of the auditor and the Chief Financial Officer, the Audit Committee discussed the audit of the annual and consolidated financial statements of MediGene AG and the audit review of the interim reports. The Audit Committee regularly discussed the half-yearly and quarterly reports with the Executive Board prior to their publication. The Audit Committee made a suggestion to the Supervisory Board for the proposal to the General Annual Meeting for the election of the auditor. Furthermore, it monitored the accounting process, the efficacy of the internal monitoring system, the risk management system and the internal audit system. The Audit Committee was comprised of Sebastian Freitag (chairman), Dr. Pol Bamelis, and Dr. Mathias Boehringer. As a consequence of Sebastian Freitag's resignation from office effective from September 30, 2010, he also resigned from the Audit Committee. Dr. Thomas Werner was appointed to the Audit Committee as Sebastian Freitag's successor by the Supervisory Board, and Dr. Mathias Boehringer became the chairman of the Audit Committee.

The SEDA Committee is a decision-making body which deals with all decisions relevant to the Supervisory Board arising in connection with the Standby Equity Distribution Agreement (SEDA) entered into with the company YA Global Investments L.P. for subscribing to new MediGene AG shares. These decisions include in particular Supervisory Board approvals on the issuance of new shares, definition of share rights, the conditions of share issuance, and exclusion of subscription rights. A resolution regarding the exclusion of subscription rights must be passed for each individual tranche. In addition, the SEDA Committee is responsible for amendments to the Articles of Incorporation, which each issuance of shares under the SEDA program entails. The SEDA Committee was comprised of Prof. Dr. Ernst-Ludwig Winnacker, Sebastian Freitag, and Dr. Pol Bamelis. As a consequence of Sebastian Freitag's resignation from office effective from September 30, 2010, he also resigned from the SEDA Committee. Dr. Mathias Boehringer was appointed as his successor to the SEDA Committee by the Supervisory Board.

The committees informed the Supervisory Board about their work at regular intervals in the subsequent plenary sessions.

Corporate Governance

In 2010, the Supervisory Board again addressed the subject of MediGene AG's compliance with the recommendations of the German Corporate Governance Code. The Executive and Supervisory Boards discussed intensively the implementation of the Code at MediGene AG at the Supervisory Board meeting on December 10, 2010 and issued the annual declaration of compliance pursuant to section 161 of the German Stock Corporation Act (AktG) on the same day. The declaration is available at all times to shareholders on the Company's website. The Executive and Supervisory Boards have made a commitment to follow the recommendations of the German Corporate Governance Code as is relevant.

In its Corporate Governance Report, the Executive Board reported on Corporate Governance at MediGene AG, also on behalf of the Supervisory Board, pursuant to number 3.10 of the German Corporate Governance Code.

In the 2010 fiscal year, no conflicts of interest arose on the part of the members of the Executive and Supervisory Boards which they would be obliged to disclose immediately to the Supervisory Board or report at the Shareholders' Meeting.

Members of the Supervisory Board

In January 2010, the Company applied for Dr. Thomas Werner to be appointed by a court of law to the currently vacant post on the Supervisory Board for the period prior to the next Annual General Meeting. The Registration Court of the Munich Local Court approved this application by ruling dated February 2, 2010.

On May 11, 2010, the Annual General Meeting elected the Supervisory Board. Dr. Pol Bamelis, Dr. Mathias Boehringer, Sebastian Freitag, Prof. Dr. Norbert Riedel, Dr. Thomas Werner, and Prof. Dr. Ernst-Ludwig Winnacker were confirmed in office, in individual votes, by the Company's shareholders and appointed to the Supervisory Board for a period ending with the Annual General Meeting that decides on the Supervisory Board's discharge for the fiscal year 2012.

Sebastian Freitag resigned from office with effect from September 30, 2010.

The Supervisory Board evaluates at regular intervals whether at least one of its members possesses the necessary independence and expertise required in the field of accounting and auditing. This was again affirmed for the 2010 fiscal year.

Individual and consolidated annual financial statements

The auditor chosen by the Annual General Meeting and commissioned by the Supervisory Board, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich, audited the financial statements of MediGene AG as at December 31, 2010 and the Management's Discussion and Analysis of MediGene AG for the 2010 fiscal year. The financial statements were prepared by the Executive Board in accordance with the regulations of the German Commercial Code (HGB). The auditor issued an unqualified audit opinion. The Audit Committee had commissioned the audit in accordance with the shareholders' resolution dated May 11, 2010. The consolidated financial statements of MediGene AG were prepared on the basis of the International Financial Reporting Standards (IFRS) as applicable throughout the EU, and the additional requirements pursuant to section 315a (I) of the German Commercial Code (HGB). The auditor also issued an unqualified audit opinion for these consolidated financial statements and the Group Management's Discussion and Analysis.

The Audit Committee established the priorities of the audit for the reporting year together with the auditors.

All Supervisory Board members received all financial statements as well as the auditor's reports in a timely manner. They were reviewed in detail by the Audit Committee and the Supervisory Board on March 16, 2011, and discussed in the presence of the Executive Board and the auditor, who reported on the results of the audit. The auditor participated in the meeting in which the annual financial statements were approved and reported in detail on the most important results of his audit, especially those results of his examination of the weaknesses of the in-house controlling and the risk management system relating to the accounting process. Both the Executive Board and auditors were available for any additional questions and information. All questions were answered to the Supervisory Board's full satisfaction.

The Supervisory Board endorsed the auditor's findings after examination of the individual and consolidated annual financial statements, the Management's Discussion and Analysis, and the Group Management's Discussion and Analysis. In the meeting on March 16, 2011, the Supervisory Board approved the individual and consolidated annual financial statements as at December 31, 2010 in accordance with the recommendation of the Audit Committee. The financial statements have thus been adopted.

At the meeting on March 16, 2011, the Audit Committee also recommended that Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich be nominated for election by the Annual General Meeting as auditors for the 2011 fiscal year. The Supervisory Board will act in accordance with this recommendation.

The Supervisory Board wishes to thank the Executive Board and all MediGene employees for their successful efforts on behalf of the Company in the 2010 fiscal year. Once again, due to their collective efforts, they achieved a good result.

Planegg/Martinsried, March 2011

Prof. Dr. Ernst-Ludwig Winnacker
Chairman of the Supervisory Board

Corporate Governance Report

In the Corporate Governance Report, the Executive Board reports on corporate governance at MediGene AG, also on behalf of the Supervisory Board, in accordance with point 3.10 of the German Corporate Governance Code. This report also includes the Statement on Corporate Governance pursuant to section 289a of the German Commercial Code (HGB).

Both the Executive and Supervisory Boards of MediGene AG are aware of their responsibility toward the Company's shareholders, employees, and business partners. Due to its obligation to ensure the continued existence of the Company and ensure sustainability in value creation in line with the principles of a social market economy, MediGene AG has largely implemented the German Corporate Governance Code (in its version dated May 26, 2010). The recommendations and proposals of the Code were determined by a German Federal Government committee and include internationally and nationally accepted standards of proper and responsible corporate management. The aim of the Executive and Supervisory Boards of MediGene AG is to justify the trust that investors, financial markets, business partners, employees, and the public have placed in them, and to continuously enhance corporate governance within the Group.

Corporate Governance ensures the following basic principles:
- It defines key shareholder rights.
- It demonstrates clear management principles and the associated responsibilities of corporate bodies.
- It governs the cooperation between these bodies.
- It calls for open and transparent communication with the public.
- It demands that accounting and auditing be conducted in a conscientious and reliable manner.

Statement on corporate governance pursuant to section 289a of the German Commercial Code (HGB)

In essence, the Company considers the Statement on Corporate Governance to represent information on internal, practical work processes that are either not required by law or extend beyond statutory requirements.

Function of the Executive Board

The Executive Board in its entirety and each individual Board member engage in Company business with the due care and diligence of proper and conscientious management in accordance with the law, the Articles of Incorporation, and the Executive Board bylaws. The Executive Board assumes responsibility for the management of the Company. In doing so, it is obliged to act in the Company's best interest and is committed to sustainably enhancing company value. In managing the Company, the Executive Board bears in mind the interests of the Company's shareholders, employees, and other stakeholders. Currently, the Executive Board is composed of two members. They cooperate closely and keep each other informed about important measures taken and processes in their departments. The Executive Board passes resolutions during sessions which take place at regular intervals, usually once a month. The Executive Board bylaws lay down the processes and approaches that form the basis of the Executive Board's work. The bylaws also include regulations for business transactions which require the Supervisory Board's consent, the Company's organizational chart, and basic behavior policy guidelines. The Executive Board works closely with the Supervisory Board. It keeps the Supervisory Board informed regularly, promptly, and comprehensively about all issues relevant to the Company.

Processes and approaches of the Supervisory Board

It is the duty of MediGene AG's Supervisory Board to appoint the Executive Board members, to advise them regularly, and to monitor and support the management and the achievement of MediGene AG's long-term goals. The Supervisory Board of MediGene AG is composed of six members, pursuant to section 10 (I) (1) of the Articles of Incorporation, and to sections 95, 96 (I), and 101 (I) of the German Stock Corporation Act (AktG). The term of office of the Supervisory Board ceases at the end of the Annual General Meeting in 2013, which decides whether to approve the Board's actions in the 2012 fiscal year.

To exercise its duties, the Supervisory Board has constituted three committees:

Compensation Committee

The duties of the Compensation Committee include matters related to the employment of Executive Board members. The Committee's main tasks are the preparation of the Executive Board members' employment contracts and to present proposals for their remuneration. It is the entire Supervisory Board's responsibility to decide on these issues. Prof. Dr. Ernst-Ludwig Winnacker (chairman), Dr. Pol Bamelis, and Prof. Dr. Norbert Riedel are the members of the Compensation Committee.

Audit Committee

The Audit Committee members deal with issues relating to accounting and risk management, the required independence of the auditor, the issuing of the audit assignment to the auditor, determination of audit priorities, and agreement on the audit fee. The Audit Committee was comprised of Sebastian Freitag (chairman and financial expert), Dr. Pol Bamelis, and Dr. Mathias Boehringer. As a consequence of Sebastian Freitag's resignation from office as a Supervisory Board member effective from September 30, 2010, he also resigned from the Audit Committee.

Dr. Thomas Werner was appointed by the Supervisory Board as his successor to the Audit Committee, and Dr. Mathias Boehringer became the chairman of the Audit Committee.

SEDA Committee

The SEDA Committee is a decision-making body which deals with all decisions relevant to the Supervisory Board arising in connection with the Standby Equity Distribution Agreement (SEDA) entered into with the company YA Global Investments L.P. for subscribing to new MediGene AG shares. These decisions include in particular Supervisory Board approvals on the issuance of new shares, definition of share rights, the conditions of share issuance, and exclusion of subscription rights. These decisions have to be taken for each individual tranche. In addition, the SEDA Committee is responsible for amendments to the Articles of Incorporation which each issuance of shares under the SEDA program entails. The SEDA Committee was comprised of Prof. Dr. Ernst-Ludwig Winnacker, Sebastian Freitag, and Dr. Pol Bamelis. As a consequence of Sebastian Freitag's resignation from office effective from September 30, 2010, he also resigned from the SEDA Committee. Dr. Mathias Boehringer was appointed by the Supervisory Board as his successor to the SEDA Committee.

Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act (AktG)

MediGene has made the Corporate Governance Code accessible to the public on the Company's website (www.medigene.com). This also applies to the official Declaration of Compliance submitted by the Executive and Supervisory Boards pursuant to section 161 of the German Stock Corporation Act (AktG) (http://www.medigene.de/E_corporate_governance_erklaerung/161/). After thorough deliberation, MediGene AG has decided not to observe certain items within the Code. These items are specified and explained in the declaration comments. Furthermore, the reasons for non-compliance are stated in the present report (see page 104 et seq.).

Key corporate governance practices

MediGene attaches major importance to compliance with legislation and in-house guidelines. For this purpose, a Compliance Officer has been appointed to concentrate on a number of central points, such as securities law and the statutory prohibition of insider trading. MediGene has developed its own insider policy to complement the latter. Furthermore, MediGene has committed to the Code of Conduct of the German Association for the Voluntary Self-Regulation of the Pharmaceutical Industry (Verband Freiwillige Selbstkontrolle für die Arzneimittelindustrie e.V.).

Additional information regarding Corporate Governance

In the 2010 fiscal year, the Executive and Supervisory Boards again addressed the subject of MediGene AG's compliance with the recommendations of the German Corporate Governance Code, particularly with the amendments adopted by the Corporate Governance Code Commission on May 26, 2010. On the basis of this examination, they issued the annual declaration of compliance pursuant to section 161 of the German Stock Corporation Act (AktG) on December 10, 2010, which is available at all times to shareholders on MediGene's website.

The MediGene AG's implementation of Corporate Governance includes:

Relations with the Company's shareholders

MediGene AG respects the rights of its shareholders and guarantees the exercise of these rights to the extent possible within the applicable statutory framework. In particular, these rights include the free purchase and sale of shares, equal voting rights for each share (»one share – one vote«), participation in the Annual General Meeting and exercise of voting rights there, and meeting the shareholders' information needs to a satisfactory level.

Communication with the public

In relaying information to entities outside the Company the Executive Board observes the principles of transparency, promptness, openness, understandability, and equal treatment of shareholders. For this purpose, the Company provides information such as press releases, financial and conference calendars, annual and quarterly reports, announcements of transactions for which disclosure is mandatory, and corporate governance information under the headings »News« and »Investor Relations« on its website www.medigene.com. MediGene AG regularly reports on the status of its research and development programs as well as other business operations in conference calls, analyst meetings, and at international investor conferences.

The Annual General Meeting of MediGene AG is prepared with the goal of effectively providing all shareholders with comprehensive information. MediGene AG also aims to facilitate the process of registration and exercise of rights for shareholders. Prior to the Annual General Meeting, shareholders are informed in detail about the past fiscal year via the Annual Report. In the invitation to the Annual General Meeting the requirements for participation, for the exercise of voting rights, as well as the procedure of voting by proxy and the shareholder rights related

to the Annual General Meeting are explained. All documents and information pertaining to the Annual General Meeting are available at the MediGene AG website. Prior to the Annual General Meeting, members of the Company's Investor Relations department are available to answer any questions that shareholders may have by telephone, fax, or email. Following the Annual General Meeting, MediGene AG publishes the ascertained voting results for each agenda item for which a resolution has been passed, the number of shares for which a valid vote has been given, the proportion of share capital represented by valid votes, the number of votes in favor of the resolution, the number of dissenting votes, and, if applicable, the number of abstentions. This ensures and simplifies the exchange of information between MediGene AG and the shareholders regarding the Meeting.

Shareholders may exercise their voting right either personally during the Annual General Meeting, through a proxy of their choice, or through one of the proxies provided by the Company and bound to observe the instructions of the shareholder.

Composition of Executive Board and Supervisory Board

Executive Board

When appointing Executive Board members, the Supervisory Board will ensure in the future that there is a diverse range of expertise and experience, and that female candidates are given adequate consideration (»diversity«).

Supervisory Board

There is no former member of the Executive Board on the Supervisory Board of MediGene AG. This guarantees impartial consultation and supervision of the Executive Board. In its meeting on December 10, 2010, the Supervisory Board decided on specific goals regarding its composition, pursuant to point 5.4.1 (2) of the German Corporate Governance Code. They are outlined below as follows:

- The Supervisory Board of MediGene AG shall be constituted in such a way that its entirety possesses the knowledge, skills, and professional experience required for the proper exercise of its duties. Each individual Supervisory Board member, however, has to exhibit the minimum knowledge and skills needed to understand and appropriately assess without assistance all ordinary business processes arising at MediGene AG.

- In view of the highly competitive international environment in which MediGene AG practices the research, development, and commercialization of novel drugs, international experience of Supervisory Board members is of vital importance for the composition of the Supervisory Board. For this reason the Supervisory Board seeks to retain its composition with members showing an international background, at least to the present extent.

- Women shall be represented on the Supervisory Board in an adequate manner. At the moment there are no female members on the Supervisory Board. It is intended that there will be at least one female Supervisory Board member by the end of the year 2014.

- Moreover the Supervisory Board aims at ensuring that the Supervisory Board is composed of independent members, and at avoiding any conflicts of interest.

- No age limits have been defined for the Supervisory Board members, which means that this shall not be a criterion in itself to be considered when constituting the Supervisory Board, since such age limits are considered to be an inappropriate restriction on the shareholders' right to elect the Supervisory Board members.

The Supervisory Board will take the above mentioned aspects into account in its decision-finding process regarding proposals to the Annual General Meeting for the election of Supervisory Board members.

Cooperation between the Executive Board and the Supervisory Board

The Executive and Supervisory Boards cooperate closely for the benefit of the Company. The Chairman of the Supervisory Board maintains regular and close contact with the Executive Board, especially with the Chief Executive Officer. The Executive and Supervisory Boards coordinate the Company's strategic direction and discuss at regular intervals the status of research and development projects, business planning and development, strategy implementation, as well as the Company's risk situation and risk management. Deviations from the established business plans and objectives are explained and justified during these sessions. The Supervisory Board specifies in the Executive Board's bylaws that transactions of major significance are subject to Supervisory Board consent. This includes, for example, decisions or measures that have a fundamental impact on the Company's asset, financial, and income position.

Remuneration of Executive and Supervisory Board members

In its version dated May 26, 2010, point 4.2.5 of the German Corporate Governance Code recommends inclusion of a remuneration report as a part of the Corporate Governance Report. The German Commercial Code (HGB), section 289 (II) (5) on the other hand, not only recommends but requires a remuneration report on the remuneration of the Executive Board members to be included in the Management's Discussion and Analysis

(MD&A). The requirements laid down in the Corporate Governance Code exceed the statutory regulations, particularly with regard to the personal information. In order to comply with both statutory provisions and Corporate Governance Code requirements, and in the interests of transparency and clarity, the remuneration of the members of the Company's management bodies is reported in a consistent and focused manner in the »Remuneration Report« chapter of the Management's Discussion and Analysis and in the notes to the consolidated financial statements, thereby implementing the provisions of the Corporate Governance Code. Remuneration of Executive and Supervisory Board members is reported on pages 32 et seq. and 88 et seqq. of the Annual Report and can be accessed at the Company's website www.medigene.com. Information on each member and each component of the remuneration is provided.

Pursuant to point 2.2.1 (II) of the German Corporate Governance Code, the Annual General Meeting may pass a resolution approving the remuneration system of the Executive Board members. A resolution regarding the future remuneration system was passed for the first time at the Annual General Meeting on May 11, 2010. It was adopted by 96%.

Total Remuneration of the Executive Board members is comprised of fixed and variable components, as well as other remuneration. Variable remuneration includes annual compensation and stock options. The criteria for the annual compensation are established by the Supervisory Board annually in advance. Objectives focused to sustainable and long-term corporate success, as well as stock options, represent long-term incentives. By delaying payment of a part of the annual compensation for three years, and subsequent review and decision-making by the Supervisory Board whether and to what extent a sustainably positive corporate development can be affirmed, additional incentives for future Executive Board member employment contracts shall be created.

The Supervisory Board members' total remuneration is comprised of fixed remuneration and meeting attendance fees. Both the chairmanship and deputy chairmanship of the Supervisory Board are included in the assessment of the Supervisory Board members' scope of activities. Committee activities are not considered separately in the remuneration.

Forward-looking risk management

A well-structured risk management system geared to practical requirements helps the Company to identify any risks at an early stage and quickly take the appropriate steps. On pages 33 et seqq. of the Management's Discussion and Analysis, we report on MediGene's risk management system and the current business risks.

Reporting and audit of financial statements

MediGene AG keeps shareholders and interested parties informed at regular intervals by means of its consolidated financial statement and the interim reports prepared in the course of the fiscal year. The Supervisory Board discusses the consolidated financial statement as well as the six-monthly and quarterly reports with the Executive Board prior to their publication. Consolidated reporting takes place in compliance with the International Financial Reporting Standards (IFRS) as applicable within the EU. Annual financial statements, which also provide the basis for taxation, are prepared in accordance with national regulations (German Commercial Code (HGB)) for the purpose of observing German corporate law (calculation of dividends, creditor protection). The consolidated financial statement and individual financial statement are reviewed by the auditors and the Supervisory Board. The Supervisory Board issues the audit assignment and concludes a fee agreement with the auditors. The auditors participate in the Supervisory Board's discussions about the annual and consolidated financial statements and report on key audit findings.

Stock option plans and similar securities-based incentive systems

The Executive Board was authorized by resolution of the Annual General Meeting on May 25, 2007 to issue stock options to employees and executives with the Supervisory Board's consent (2007 stock option plan). In January 2010, a total of 110,310 stock options were issued to employees, and in December 2010, a total of 153,264 stock options were issued to Executive Board members and employees of MediGene AG. For more detailed information about MediGene AG's employee stock ownership programs, please refer to pages 73 et seqq. of this Annual Report.

Directors' Dealings

Pursuant to section 15a of the German Securities Trading Act (WpHG), the Executive and Supervisory Board members of MediGene AG, as well as any persons who have a close relationship with these members (family members), are bound to report any trading in MediGene AG shares. The purchase and sale of MediGene AG shares and any transactions in securities which relate to MediGene AG shares (e.g. the sale or purchase of options on MediGene AG shares) have to be reported. The Company must be notified of such transactions within five business days and has to disclose such transactions without delay. The reporting obligation is inapplicable if the total value of trading does not exceed the minimum limit of € 5,000 during one calendar year.

The following directors' dealings took place in 2010:

Directors' Dealings 2010

Member	Function	Security	ISIN	Transaction	Place of trading	Date of transaction	Price per share in €	No. of shares	Total transaction volume €
Dr. Frank Mathias	Executive Board member	share	DE0005020903	Purchase	Xetra	April 22, 2010	2.857	1,000	2,875
Dr. Frank Mathias	Executive Board member	share	DE0005020903	Purchase	Frankfurt	April 22, 2010	2.869	1,000	2,869

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

Any non-compliance with the recommendations of the German Corporate Governance Code described in the declaration of compliance pursuant to section 161 of the German Stock Corporation Act (AktG) is explained as follows:

Absentee voting

In its next Annual General Meeting, the Company will refrain from making use of the alternative of absentee voting granted by the Articles of Incorporation since the last Annual General Meeting (point 2.3.3 (II)).

Both the Executive and the Supervisory Boards of MediGene AG believe that the existing voting methods are adequate and provide sufficient options for the shareholders to vote on the respective items of the agenda.

Deductible in the case of D&O insurance

In point 3.8, the German Corporate Governance Code recommends that between 10% of the loss and one-and-a-half times the fixed annual remuneration of the Executive Board member be agreed as a deductible for any directors' and officers' liability insurance concluded (»D&O insurance«).

a) The D&O insurance taken out by MediGene AG for its Executive Board members did not provide for any deductible until June 30, 2010 (compare point 3.8 (II) of the Code as amended on June 18, 2009). For existing D&O insurance contracts, the legal obligation to adapt these contracts pursuant to section 93 (II) (3) of the German Stock Corporation Act (AktG) in conjunction with section 23 (I) (1) of the Introductory Act to the German Stock Corporation Act (EGAktG) has been in effect only since July 1, 2010. Therefore, since July 1, 2010, the D&O insurance of MediGene AG has provided for a deductible of at least 10% of the loss up to at least one-and-a-half times the fixed annual remuneration for the Executive Board members.

b) The D&O insurance (so-called directors' and officers' liability insurance) taken out by MediGene AG for its Supervisory Board members does not provide for any deductible (compare point 3.8 (III) of the Code) with the exception of deductibles related to any damages claimed in the USA or in compliance with applicable US law.

MediGene AG does not intend to agree to a general deductible for its Supervisory Board members with its D&O insurance carrier. The legal obligation to adapt D&O insurance contracts pursuant to section 93 (II) (3) of the German Stock Corporation Act (AktG) in conjunction with section 23 (I) (1) of the Introductory Act to the German Stock Corporation Act (EGAktG) in effect since July 1, 2010 is applicable only to Executive Board members. In section 116 (I) of the German Stock Corporation Act the legislator did not require any deductible for Supervisory Board members, but expressly excluded the Supervisory Board instead. The Executive and Supervisory Boards of MediGene AG believe that the nature of the position as a Supervisory Board member, which is also emphasized by the different remuneration, calls for a distinction between D&O insurances for Executive and Supervisory Board members. Both the Executive and Supervisory Boards also believe that the motivation and sense of responsibility applied by the members of the Supervisory Board of MediGene AG in the fulfillment of their duties are fully guaranteed without any general deductible as recommended under the Code.

Age limits for Executive and Supervisory Board members

The German Corporate Governance Code recommends in points 5.1.2 (II) and 5.4.1 that age limits be set for Executive Board and Supervisory Board members. There is no age limit for the Executive and Supervisory Board members of MediGene AG, and there is no intention to introduce such age limits in the future.

MediGene AG's Executive and Supervisory Boards both consider such age limits to be an inappropriate restriction not only on the shareholders' right to elect the Supervisory Board members but also on the Supervisory Board's selection of qualified Executive Board members. The Supervisory and Executive Boards are well-balanced in their age structures, even without a mandatory age limit.

Constitution of a nomination committee

The German Corporate Governance Code recommends in point 5.3.3 that the Supervisory Board constitute a nomination committee made up exclusively of shareholder representatives. Such a nomination committee has not hitherto been constituted by MediGene AG's Supervisory Board and is not under consideration for the future.

The members of the Executive and Supervisory Boards believe that in view of the overall size of the Supervisory Board, it is neither necessary nor advisable to constitute such a committee, and that the Supervisory Board is able to perform this task on its own without sacrificing its efficiency.

Limitation of Supervisory Board mandates

The Code recommends in point 5.4.5 that the Supervisory Board members shall not accept more than a total of three Supervisory Board mandates in non-group listed companies or in supervisory bodies of companies with similar requirements. Dr. Thomas Werner holds more than three supervisory board mandates and panels comparable to a supervisory board.

The Executive and Supervisory Boards of MediGene AG believe that an adequate fulfillment of the duties is guaranteed even if the number of three panel memberships is slightly exceeded.

Consideration of committee work in the remuneration of Supervisory Board members

The German Corporate Governance Code recommends in point 5.4.6 (I) that membership in the Supervisory Board committees be taken into consideration in the remuneration of the Supervisory Board members. Any membership in committees of the Supervisory Board is not taken into account when fixing the remuneration of MediGene AG's Supervisory Board members, nor is this planned for the future. 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 arrangement.

Performance-based remuneration of the Supervisory Board members

The German Corporate Governance Code recommends in point 5.4.6 (II) that the members of the Supervisory Board receive performance-based remuneration in addition to their fixed remuneration. MediGene AG's Supervisory Board members have up to now received no performance-based remuneration, and this is also not planned for the future.

The Executive and Supervisory Boards believe that the Supervisory Board's activities are efficient and geared toward maximum corporate success at all times, regardless of whether remuneration is performance-related or not.

All other recommendations and proposals of the German Corporate Governance Code have been implemented in their entirety. MediGene AG has appointed a Corporate Governance representative within the Company who reports to the Executive and Supervisory Boards at least once a year on any amendment to and the implementation of the German Corporate Governance Code. This enables MediGene AG to ensure that these principles are continuously observed within the Company. By means of analysis, supervision, and transparency, MediGene AG has set the stage for fair and efficient corporate management. This shall remain MediGene AG's standard in the future as well.

Glossary

A

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

AktG
»Aktiengesetz«
German Stock Corporation Act

Authorized capital
Value or number of shares authorized in advance by the company's General Meeting for the purpose of a possible capital increase against cash or non-cash contribution

Autoimmune diseases
Diseases caused by an overreaction to one's own body tissue

B

B-cell epitope
Part of the antigen that is recognized by the antibody or B-cell receptor

Biopharmaceutical
Research into and development of drugs and therapies (pharmaceutics), based on biotechnology and molecular biology

Biotechnology
Utilization of natural and modified biological systems and their elements

C

CD28 protein, CD80 protein
Proteins on the surface of immune cells, involved in the onset of inflammatory processes
See also »T-cell activation«

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

CGU
Cash-generating unit

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

Controlled trial
Trial with a control group of test persons who do not receive the active ingredient tested but a placebo

D

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

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

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

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

Drug candidate
Drug which is still at the development stage

E

EBITDA
Earnings before interest, taxes, depreciation, and amortization
EBITDA is used to describe the result for the year excluding taxes, financial result, depreciation, amortization, and impairment.

Endothelial cells
Line the interior surface of lymphatic and blood vessels

Estrogen
Female sex hormone
See also »triple negative breast cancer«

F

FDA
Food and Drug Administration
Government agency of the United States Department of Health and Human Services

Freeze-drying
A process of gently drying high-value products. The product solution is frozen as rapidly as possible. Afterwards, the solvent (in most cases water) is removed by applying a vacuum. During this process, the ice crystals sublime directly, avoiding the liquid state. This method allows very gentle drying of temperature-sensitive products.

G

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

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

Gestagen
Female sex hormone
See also »triple negative breast cancer«

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

H

HER2 receptor
Human Epidermal Growth Factor Receptor 2, a protein found on the surface of many human organs
See also »triple negative breast cancer«

HGB
»Handelsgesetzbuch«
German Commercial Code

Human papillomaviruses
Viruses that infect the epithelium of the skin and may cause uncontrolled tumor-like growth

I

IAS
International Accounting Standards
Part of the International Financial Reporting Standards

IFRIC
International Financial Reporting Interpretations Committee

IFRS
International Financial Reporting Standards

Indication
Reason for the execution of a medical examination or treatment

L

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

Liposomes
Minute, hollow globules, composed of fat molecules

O

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

Oncology
Science of tumors and tumor-related diseases

Orphan drug designation
Drugs developed for the treatment of rare diseases may obtain orphan drug designation from the European Commission or the FDA allows benefits in development, approval procedures, and possibly even the commercialization of the product.

P

Pancreatic cancer
Malignant tumor of the pancreas

PCT
Patent Cooperation Treaty
International agreement under which a patent application may be filed for currently 142 countries worldwide. For the issue of a patent, this application has to be transferred to a national application at a later date.

Peptide
A peptide (short protein) consists of amino acids linked together

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

Pipeline
All of the drug candidates that are under development

Preclinical
Stages of development of an active substance prior to testing in humans

Proof of concept
Evidence of the fundamental feasibility of a plan

Prophylactic vaccine
Administered to prevent a disease, prepares the immune system for the defense against infection

Prostate cancer
Malignant tumor of the prostate gland (part of the male sexual organs)

R

Receptor
Protein molecule which causes binding of different particles that are transported into a cell

Resistance
Ability of an organism to withstand external influences

Rheumatoid arthritis
Inflammatory disease affecting the joints

S

SEDA
Standby Equity Distribution Agreement
Method of financing where a company's partner agrees to subscribe to tranches of new shares against capital contribution

Spray drying
An especially gentle method of drying sensitive products by atomizing the solution or suspension under pressure into small droplets and drying it with a hot gas

T

T cells
T cells or T lymphocytes belong to a group of white blood cells known as lymphocytes, and play a central role in cell-mediated immunity

T-cell activation
Pivotal step in the onset of inflammatory processes

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

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

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

Therapeutic vaccine
Stimulates the immune system against acute infection or an existing tumor

Triple negative breast cancer
Malignant breast tumors that display neither estrogen/gestagen nor HER2 receptors on the cell surface are termed »triple negative«

Financial calendar

March 25, 2011
Annual report 2010
Financial press conference and analysts teleconference

May 13, 2011
3-month report, analysts teleconference

August 5, 2011
6-month report, analysts teleconference

November 11, 2011
9-month report, analysts teleconference

Trademarks

Eligard®
is a trademark of Tolmar Therapeutics, Inc.

EndoTAG®
is a trademark of MediGene AG

MediGene®
is a trademark of MediGene AG

Polyphenon E®
is a trademark of Mitsui Norin Co. Ltd.

RhuDex®
is a trademark of MediGene AG

Veregen®
is a trademark of MediGene AG

These trademarks may be held or licensed for specific countries.

Imprint

Published by
MediGene AG
Lochhamer Str. 11
82152 Planegg/Martinsried
Germany
T +49-89-856529-0
F +49-89-85652920

Contact
Public & Investor Relations
Julia Hofmann
(analysts, institutional investors, press)
Kerstin Langlotz
(retail investors, press)
T +49-89-85653301
investor@medigene.com
public.relations@medigene.com

Human Resources
Silvia Kandlbinder
T +49-89-85652986
human.resources@medigene.com

Business Development
Elias Papatheodorou
T +49-89-85652956
business.development@medigene.com

Commercial Operations
Michaela Fabry
T +49-89-85652956
commercial.operations@medigene.com

Concept and text
MediGene AG, Planegg/Martinsried

Concept, design and realization
Kirchhoff Consult AG, Hamburg

Photographs
Matthias Tunger, Munich

Production
Druckerei Kriechbaumer, Munich