HIGHLIGHTS

IMPLEMENTATION OF NEXT LEVEL STRATEGY
We developed our new strategy based on a portfolio review and have made great progress in implementing this already:
- Distinct product- and market-orientation
- Focus on the TLR9 product family with lead product lefitolimod and follow-up molecules EnanDIM®

STUDY PROGRESS – FURTHER IMPORTANT MILESTONES REACHED
- Significant progress made in patient recruitment for pivotal study
- Data evaluation for lung cancer study now underway
- Continuation of HIV study based on promising data
- Start of a combination study with lefitolimod and the checkpoint inhibitor Yervoy® (ipilimumab)

FUNDING OUR PRODUCT DEVELOPMENT PROGRAM
- Successful capital increase and issuance of a convertible bond with gross proceeds totaling more than €16 million
- Progress made in studies led to increased use of cash funds

NEW TALENT
- Changes at Executive Board level
- Our new Chief Financial Officer has made significant progress in terms of company financing

KEY DATA

((IFRS)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Profit (loss) from operations (EBIT)</td>
<td>–21.0</td>
<td>–20.5</td>
<td>2</td>
</tr>
<tr>
<td>Expense structure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>5.5</td>
<td>5.1</td>
<td>8</td>
</tr>
<tr>
<td>Research &amp; Development expenses</td>
<td>17.0</td>
<td>16.8</td>
<td>1</td>
</tr>
<tr>
<td>Earnings per share in € (basic)</td>
<td>–0.85</td>
<td>–0.99</td>
<td>–14</td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td>–19.3</td>
<td>–15.1</td>
<td>28</td>
</tr>
<tr>
<td>Cash and cash equivalents as of 31 December</td>
<td>20.5</td>
<td>24.6</td>
<td>–17</td>
</tr>
<tr>
<td>Shareholders’ equity as of 31 December</td>
<td>11.8</td>
<td>19.5</td>
<td>–39</td>
</tr>
<tr>
<td>Equity ratio as of 31 December</td>
<td>55%</td>
<td>74%</td>
<td>–26</td>
</tr>
<tr>
<td>Total assets as of 31 December</td>
<td>21.4</td>
<td>26.4</td>
<td>–19</td>
</tr>
<tr>
<td>Number of employees as of 31 December</td>
<td>59</td>
<td>66</td>
<td>–11</td>
</tr>
</tbody>
</table>
## CONTENTS

### 01 | THE COMPANY

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>MISSION STATEMENT / PROFILE</td>
<td>2</td>
</tr>
<tr>
<td>LETTER FROM THE EXECUTIVE BOARD</td>
<td>4</td>
</tr>
<tr>
<td>EIGHT QUESTIONS FOR WALTER MILLER</td>
<td>6</td>
</tr>
</tbody>
</table>

### THE POWER OF IMMUNOTHERAPIES

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>NEXT LEVEL STRATEGY</td>
<td>10</td>
</tr>
<tr>
<td>DOUBLING THE POWER OF THE IMMUNE SYSTEM: COMBINATION THERAPIES</td>
<td>12</td>
</tr>
<tr>
<td>NEW STRATEGY: NEXT LEVEL</td>
<td>18</td>
</tr>
<tr>
<td>NEW PIPELINE: FOCUS ON TLR9 PRODUCT FAMILY</td>
<td>24</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>THE MOLOGEN SHARE</td>
<td>36</td>
</tr>
<tr>
<td>REPORT OF THE SUPERVISORY BOARD</td>
<td>38</td>
</tr>
</tbody>
</table>

### 02 | FINANCIAL INFORMATION

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>MANAGEMENT REPORT</td>
<td>43</td>
</tr>
<tr>
<td>INDIVIDUAL ANNUAL FINANCIAL STATEMENTS</td>
<td>67</td>
</tr>
<tr>
<td>NOTES</td>
<td>73</td>
</tr>
<tr>
<td>AUDITOR’S REPORT</td>
<td>95</td>
</tr>
<tr>
<td>RESPONSIBILITY STATEMENT OF THE EXECUTIVE BOARD</td>
<td>96</td>
</tr>
</tbody>
</table>

### 03 | FURTHER INFORMATION

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>GLOSSARY</td>
<td>98</td>
</tr>
<tr>
<td>FINANCIAL CALENDAR / IMPRESSUM</td>
<td>100</td>
</tr>
</tbody>
</table>
THE POWER OF IMMUNOTHERAPIES

NEXT LEVEL STRATEGY
With new and unique technologies and active substances, MOLOGEN is one of the pioneers in the field of immunotherapies. Our product development helps combat some of the most threatening diseases. Apart from the core focus on oncology, we also develop immunotherapies for the treatment of infectious diseases. Our approach concentrates on drug candidates for which there is high medical need.

As a biopharmaceutical company, MOLOGEN is oriented toward closer-to-market proprietary product candidates which have advanced beyond the basic research stage. Our foremost objective is the successful out-licensing and marketing of our products, particularly our lead product lefitolimod.

All products are based on the same active principle: they activate the human immune system to combat the disease itself. It is a highly promising approach which we are driving forward with great confidence and from which patients who are reliant on innovative treatment options stand to benefit. Without exception, our products have demonstrated good efficacy and tolerability, which is a particularly noteworthy characteristic for cancer therapies.

The focus of our development work is on MOLOGEN’s proprietary platform technology: the product family of DNA-based TLR9 agonists. This includes our lead product, the immunotherapeutic agent lefitolimod, and its follow-up molecules EnanDIM®. Since the summer of 2014, lefitolimod has been subject to a Phase III pivotal study for colorectal cancer. The results of this are expected for release in early 2019. This means that lefitolimod is one of the few product candidates in the field of immuno-oncology to be close to market.

Furthermore, lefitolimod is also being tested in a Phase II trial in small cell lung cancer (SCLC). The results for this are presumably expected by mid-2017. In 2015, a Phase I/II study in a non-oncological indication was launched for the first time: in HIV patients. In addition, lefitolimod is being investigated with the checkpoint inhibitor Yervoy® (ipilimumab) in various cancer indications within the scope of a phase I combination study.

Our product portfolio includes the likewise proprietary cell-based therapeutic vaccine MGN1601 to treat advanced renal cancer. The further development of MGN1601 has been shelved for the time being. It is anticipated that this will be re-initiated at a later date, for example following the successful out-licensing of lefitolimod.
DEAR SHAREHOLDERS,

2016 was another eventful and positive year for MOLOGEN AG. The development and implementation of our new Next Level strategy has set the course for the future of your Company and considerably advanced our clinical trials. There were also changes to the composition of the Executive Board. On April 1, 2016, Walter Miller joined as Chief Financial Officer (CFO) and since then we have managed MOLOGEN together as a well-coordinated team. Dr Alfredo Zurlo, previously our Chief Medical Officer (CMO), left the company on March 31, 2016. On behalf of everyone at MOLOGEN, we wish to thank Dr Zurlo. He played a key role in the implementation of the clinical development programs with our lead product lefitolimod and was able to attract renowned international experts for research cooperation, making an important contribution to the ongoing development of MOLOGEN in the process. His successor, Dr Matthias Baumann, will be starting as CMO and member of the Executive Board of MOLOGEN AG on May 1, 2017.

The implementation of our new corporate strategy, Next Level, set the course for the coming years. Based on the portfolio review carried out in 2016, we specified the further development of our product pipeline. We have already taken the first important steps towards developing MOLOGEN from a purely research-driven company to one that is product- and market-oriented. Our goal is well-defined: To bring our lead product lefitolimod to market and find the right partner for its licensing and marketing. We are putting all our efforts into achieving this. In addition to lefitolimod, we will also continue to advance the development of the follow-up molecules EnanDIM®.

A lot of work remains to be done. The outsourcing of our production and some of our research activities to external service providers has commenced. The new strategic direction also comprised the closing of the relevant in-house departments and the reduction of a substantial number of the staff working in those departments. Although painful, this was a necessary measure that has now largely been completed. We would like to thank the employees concerned for their long-standing commitment and loyal service to MOLOGEN, often over many years. As part of the new strategic direction, we have ensured that our expertise and knowledge in the field of immunotherapy has remained in the company.

With regard to the further development of our products – in particular the four ongoing clinical trials with lefitolimod – we achieved the planned progress. In view of the positive results in the first phase, our TEACH study in the indication of HIV has continued in an extended phase since June 2016. This offers an attractive potential expansion of the area of application beyond cancer. In our IMPALA pivotal study, we again made considerable progress in 2016 and are set to complete patient recruitment soon.

One form of therapy which is becoming even more important in the field of immunotherapies is combination therapy. We are currently testing lefitolimod in a combination study with the checkpoint inhibitor Yervoy®. MOLOGEN is conducting this in cooperation with the MD Anderson Cancer Center Texas, USA. Patient recruitment started in July 2016. The possibility of further combination studies is being considered, including as part of talks with potential partners.

Overall, cancer immunotherapy had a strong presence again in the public domain during 2016. The combination of different immunotherapies is still considered to be one of the most promising cancer treatment options. Accordingly, we continue to assume that there is blockbuster potential, especially for our lead product, lefitolimod.

Investments in our development projects as well as in the initial activities for market launch, such as upscaling and outsourcing of production to contract manufacturing organizations, and our structured efforts in terms of license and partnering activities resulted in a slightly higher loss for the year of €–21.0 million in 2016 compared with €–20.5 million in financial year 2015. In addition to a capital increase with gross proceeds totaling €13.6 million, we also placed convertible bonds worth €2.5 million. MOLOGEN AG’s cash and cash equivalents amounted to €20.5 million as of December 31, 2016 and were therefore below the previous year’s figure of €24.6 million. Taking into account the funds raised in January 2017 with the second convertible bond issue of €4.99 million, the funds required for our further development activities and the continuation of business operations in 2017 are already in place. Based on the current planning, our financing is secured until the beginning of 2018.

Our special thanks go to you, our shareholders, for your support. Last year, in particular, you placed your trust in MOLOGEN when it came to the capital measures we implemented. We appreciate the support many of you have given us over many years and continue to put all our energy into achieving our aims.

Our express thanks also go to all our employees for their great commitment, high-quality work and dedication in what has been a turbulent year. They are the basis of our Company’s success.
"THE NEW STRATEGY DEVELOPED IN 2016 SET THE COURSE FOR THIS AND SUBSEQUENT YEARS – WE ARE NOW CONSISTENTLY IMPLEMENTING IT."

We expect to face more exciting and challenging tasks in 2017. Our direction is clear: We will consistently implement our new Next Level strategy and above all advance the development of our lead product, lefitolimod. In parallel with our development activities, our actions will focus on commercialization activities. We look forward to embracing, together with you, the tasks and challenges that lie ahead in the new year.

Best wishes,

Dr Mariola Söhngen  
Chief Executive Officer (CEO)

Walter Miller  
Chief Financial Officer (CFO)
CAN YOU REMEMBER WHEN YOU FIRST BECAME AWARE OF MOLOGEN AG?

WALTER MILLER »Of course! It must have been back in 2006. At this time I was working for Santhera AG, a Swiss biotech company. We were preparing an IPO back then and comparing ourselves against other companies in the German-speaking world. MOLOGEN was a potential candidate for our peer group. However, on account of the various indication fields, MOLOGEN fell off my radar again. Nevertheless, I was made aware of MOLOGEN again, as a client on this occasion, in 2013, when I was working as CFO at Nuvisan, a clinical research organization (CRO) based in southern Germany. Nearly three years later I received an inquiry as to whether I would like to join MOLOGEN as CFO.«
2 WHAT WAS YOUR PERSONAL MOTIVATION BEHIND MAKING THE SWITCH TO MOLOGEN?
WALTER MILLER »Since first entering the biotech industry in 2002, the dynamic nature of this market has fascinated me. Likewise the opportunity to successfully manage a product portfolio of potential drugs with a highly effective team by my side. So once I was presented with the offer, I didn’t need long to make up my mind. It was immediately obvious to me that I had been presented with an exceptionally exciting and challenging task in the highly dynamic indication field of immunotherapy with a focus on oncology. The timing was also perfect for me. I have the chance to develop and build something here. There are above all chances and opportunities presented by the radical change the company is undergoing and realignment guided by the Next Level strategy. This is a real motivation for me. It was the right move at the right time.«

3 ARE THERE ANY PARTICULAR EXPERIENCES WHICH MAKE YOU ESPECIALLY WELL-QUALIFIED TO_ASSUME RESPONSIBILITY FOR MOLOGEN’S FINANCIAL FUTURE?
WALTER MILLER »Yes, of course. Dynamic periods of change have always been my forte. I bring with me 15 years of industry experience at both a listed, international biotech company and a service provider for clinical trials. Since participating in my first IPO in 1999, I have acquired experience of the capital market, funding activities, licensing and out-licensing and the respective issues of financial strategy these entail. During my time at Santhera, I was involved in the research and development process covering the preclinical and clinical stages right through to pre-marketing and market launch. This allowed me to acquire a profound understanding of the stages involved in drug development and marketing. In addition to this, I was tasked with restructuring and establishing a market-oriented research company. This involved building the necessary structures. Moreover, I have wide-ranging commercial and administrative experience within a large team from my time as CFO with complete responsibility at Nuvisan.«

4 FROM YOUR PERSPECTIVE, WHAT ARE MOLOGEN’S PARTICULAR VALUES WHICH HELP THE COMPANY TO STAND OUT FROM THE CROWD?
WALTER MILLER »In actual fact there are many. For one thing, MOLOGEN is certainly a pioneer within the field of immunotherapy. With our lead product lefitolimod, which is currently undergoing a clinical phase III trial, we are one of only a handful of companies to own a close-to-market product candidate in the field of immunoncology. In addition, lefitolimod is a very promising drug candidate in terms of its market potential. Tolerability is high, studies have revealed a very positive security profile and can be used to treat various different indications – not only in the field of oncology but also in patients with HIV, for example. Should lefitolimod be successfully approved for market, capital market studies covering all potential indications promise blockbuster potential for this product. However, at this juncture it is necessary to mention EnanDIM®, our highly promising follow-up product family, which is currently still in the preclinical phase. They are already opening up options for life-cycle management and risk diversification in various indications. This may be of major significance both clinically and financially in the coming years. In addition to product and market aspects, I see the exceptional staff at MOLOGEN as an asset themselves. Many of them have worked here for a long time already. Their long-standing experience and expertise, as well as their commitment to the company’s realignment impressed me a great deal, and continues to do so now.«

5 WHAT GOALS HAVE YOU SET BOTH ON A PERSONAL LEVEL AND FOR THE COMPANY? WHAT ARE THE SPECIFIC CHALLENGES AND OPPORTUNITIES FOR MOLOGEN – PARTICULARLY WHERE FUNDING IS CONCERNED?
WALTER MILLER »I am now focusing on the objectives we would like to achieve for MOLOGEN as defined by the Next Level strategy. We will focus on the lead product lefitolimod and work towards the further development of the follow-up product EnanDIM®. Our foremost priority is finding the right collaborative partner and out-licensing of lefitolimod. For me as CFO, the most important objective is quite obviously financing. After all, this is the basis for the continuation and completion of ongoing studies and therefore ultimately for the success of the company as a whole. In this context, the previously mentioned search for a partner with a view to out-licensing could make a key contribution. We have a Business Development Team on board supporting us in this task in a well-structured process. The main challenge during 2016 was without doubt convincing investors of our realignment in order to secure their financial support. I’m delighted to say that we managed this successfully. Our medium-term aim is to broaden and internationalize our investor basis in order to establish the company on an even stronger financial footing.«
TO IMPLEMENT THE NEXT LEVEL STRATEGY, CASH INFLOWS WERE AND STILL ARE REQUIRED – IN 2016, THIS REQUIREMENT WAS COVERED BY TWO CAPITAL MEASURES, ONE CAPITAL INCREASE AND A CONVERTIBLE BOND. WHAT CAN YOU TELL US ABOUT THIS AND HOW WILL THINGS PROCEED FROM HERE?

WALTER MILLER »We are delighted that the shareholders expressed their trust and confidence in us with the successful and oversubscribed capital increase. The convertible bond guaranteed by our major shareholders GDT has allowed MOLOGEN to achieve a stable financial situation for 2017. This represented a new funding instrument for MOLOGEN – a conscious decision on account of the structure of the available capital. Overall, the convertible bond allowed us to raise additional liquidity of over €16.0 million in 2016. These funds have been very helpful, although they are not quite sufficient for the completion of the complex studies. Furthermore, we announced another convertible bond just before the end of 2016. In January 2017, this led to a cash inflow of €4.99 million. With this additional measure, our current data reveals that MOLOGEN is sufficiently financed until the beginning of 2018. Nevertheless, the issue of funding will continue to be a factor throughout 2017, too. We are permanently checking possibilities and weighing up opportunities, be it via agreeing partnerships or making use of the capital market. On account of our experiences in 2016 and highly regarded Next Level strategy, which is still in the process of being fully implemented, we are confident of securing the requisite funding for MOLOGEN to operate successfully in the future.«

WHAT HOPES – INCLUDING THOSE OF A FINANCIAL NATURE – ARE YOU PINNING ON LEFITOLIMOD AND THE FOLLOW-UP PRODUCT ENANDIM®?

WALTER MILLER »As previously stated, analysts have identified blockbuster potential in lefitolimod. This is because of the numerous potential areas of application – not only in the field of oncology but also in treating infectious diseases. This does not just mean HIV, it is likely that other infectious diseases can be treated, too. Furthermore, lefitolimod could be used in combination therapy. In financial terms, our work with lefitolimod is centered on a highly innovative and expensive area of therapy. Provided that we are able to definitively confirm its efficacy in the IMPALA study, there are potentially very attractive upsides. For the indication colorectal cancer alone, established research institutes expect sales of nearly US$9.5 billion in 2020. If we were able to tap into even just some of this figure with lefitolimod, the possible economic potential contained within our compound is clear.«

YOU MENTIONED PREVIOUSLY THAT LEFITOLIMOD IS BEING TESTED FOR THE INDICATION HIV AS WELL AS CANCER. HOW MUCH PROGRESS HAS MOLOGEN MADE HERE, AND DO YOU THINK FURTHER POTENTIAL APPLICATIONS, PARTICULARLY IN THE FIELD OF INFECTIOUS DISEASES, WILL BE TESTED?

WALTER MILLER »That’s right, lefitolimod is also being tested for the indication HIV during the phase I TEACH study. The study is conducted by our partners in the Aarhus University Hospital in Denmark and financed by the American Foundation of Aids Research, while MOLOGEN provides the drugs in the form of lefitolimod. On account of positive data emerging from the first phase of the study, revealing a broad activation of the immune system triggered by lefitolimod, an extension phase was initiated in June 2016. This means that a group of patients is treated with lefitolimod over a longer time frame. The positive signals received so far may indicate that lefitolimod could play a part in the successful treatment of HIV. We expect the results of this extended study phase around mid-2017. Should we begin to see positive results in HIV, it is conceivable that potential therapy approaches using lefitolimod for further infectious diseases will then be evaluated. Every option which presents itself here also naturally means that a full clinical development must be undertaken. We must therefore focus on first achieving success in the well-advanced phase III development. From this, with MOLOGEN both bigger and stronger, we could begin looking at further steps and other indications.«
LET US END THE INTERVIEW ON A MORE PERSONAL NOTE: BEING THE CFO OF AN AMBITIOUS BIOTECH COMPANY IS A MAJOR, TIME-CONSUMING TASK. HOW DO YOU RELAX AWAY FROM WORK? DO YOU HAVE ANY HOBBIES?

WALTER MILLER: “Well, in the past few months MOLOGEN has not just demanded a lot of my time, but the entire Executive Board too. The major changes and challenges facing us have simply not allowed much time for hobbies or anything else outside of work. To clear my head I like to read a good book. But mostly I love to be active. Sport helps to take my mind off work. I cycle and jog regularly – I’m actually planning to run another half marathon in 2017. And my son who competes in intense badminton tournaments never passes up an opportunity to challenge me to a match (laughs). But as an avowed Swabian I really enjoy relaxing over a nice glass of wine surrounded by friends.”

WALTER MILLER, THANK YOU FOR THE FASCINATING INTERVIEW. WE WISH YOU THE BEST OF LUCK IN YOUR ROLE AS CFO.

“EXCITING CHALLENGES LIE AHEAD OF US – THESE INCLUDE THE DEVELOPMENT AND COMMERCIAL ACTIVITIES, BUT ABOVE ALL ENSURING THE COMPANY’S CONTINUED FUNDING.”
THE POWER OF IMMUNOTHERAPIES
NEXT LEVEL STRATEGY

DOUBLING THE POWER OF THE IMMUNE SYSTEM:
COMBINATION THERAPIES

NEW STRATEGY: NEXT LEVEL

NEW PIPELINE:
FOCUS ON TLR9 PRODUCT FAMILY

THE MOLOGEN SHARE

REPORT OF THE SUPERVISORY BOARD
MOLOGEN ANNUAL REPORT 2016

DOUBLING THE POWER OF THE IMMUNE SYSTEM: COMBINATION THERAPIES
THE IMMUNE SYSTEM HAS EVOLVED OVER MILLIONS OF YEARS AS A WEAPON TO WARD OFF ATTACKS AGAINST THE BODY. IT IS PRIMARILY MICROORGANISMS SUCH AS BACTERIA AND VIRUSES WHICH POSE AN EVER-PRESENT THREAT. WITHOUT THE IMMUNE SYSTEM’S INTELLIGENT DEFENSE STRATEGIES, WE WOULD BE EXPOSED AND DEFENSELESS TO ANY MICROBIAL ATTACK.

In addition, the immune system protects the human body against the emergence of mutated cell clones which could later develop into cancer cells. Over 100 years ago, scientists therefore already came up with the logical idea of involving the body’s own defense mechanism in the fight against this deadly disease. Initially, these so-called “immunotherapies” had little success. The tide only turned very recently. Meanwhile, treatment concepts which use the body’s own defense mechanism to neutralize cancer cells are now regarded as the brightest lights in the fight against cancer. Immunotherapies help extend and improve the life of patients, many of whom have no other treatment options.

»FOR THE SECOND TIME IN A ROW, IN ITS ANNUAL REPORT ON PROGRESS AGAINST CANCER, THE AMERICAN SOCIETY OF CLINICAL ONCOLOGY (ASCO) HAS NAMED IMMUNOTHERAPY AS THE CLINICAL CANCER ADVANCE OF YEAR.«
TRAINING THE IMMUNE SYSTEM IN THE FIGHT AGAINST CANCER

Cancer cells confront the immune system with a major problem. They stem from the body’s own cells and are therefore not recognized by the immune system as “foreign”. For this reason, cancer cells can evade the body’s immune response. However, new scientific findings have uncovered strategies which can help immune cells recognize and eliminate malignant cells.

Apart from strategies to evade the immune system, cancer cells are able to produce “molecular switches” in order to neutralize the immune system’s attacking cells. Molecules have therefore been developed which block the “molecular switches” so that the immune system can recognize and destroy cancer cells just as it does in the case of microorganisms, for example. However, treatment with these molecules may cause immune-related side effects if the immune system also turns on the body’s own healthy cells. It is therefore crucial to push forward with the development of innovative approaches in the fight against cancer which will fine-tune the immune system to respond exclusively to cancer cells.

WHAT IS CANCER?

Cancer occurs when cells in the body undergo multiple genetic changes, escaping the body’s growth controls to become “malignant” cells. They divide to the detriment of healthy cells and grow into a tumor. Cancer cells become even more dangerous because of their ability to migrate to other parts of the body in the form of metastases. Any tissue or organ can develop cancer. Over 230 different types of cancer are known to medicine, among the most frequent of which are colorectal, prostate, breast and lung cancer.

CONVENTIONAL PILLARS OF ONCOLOGY

The treatment of cancer is based on the following pillars: surgery, radiotherapy and drugs. Conventional cancer drugs include chemotherapy drugs known as “cytotoxics”: active ingredients to target cells which divide rapidly in the body. On account of progress made in genetics and molecular biology, new drugs are also available which target characteristic structures of tumor cells more precisely.

TARGETED AT CANCER

Targeted forms of cancer therapy include not only drugs which interfere with the metabolism of tumor cells, but also immunotherapy. One example of this is the administration of antibodies, which act as the “tracker dogs” of the immune system. Since the 1970s, antibodies have been produced in large quantities using biotechnology. Antibodies are often used in medicine in order to block specific cell activity or to kill malignant cells by recognizing the molecular structure on the cell surface.

However, a single measure alone – whether it be surgery, radiotherapy or targeted drugs – is often not enough. Mostly, doctors try to combine all available treatment methods in the best possible way. This has helped them make significant progress: two thirds of patients now survive the first five years after diagnosis – in the 1980s, the figure was just under half.

Nevertheless, there is still a substantial need for further treatment options. Experts expect nothing less than a paradigm shift in oncology: cancer cells should no longer be attacked with surgery, radiotherapy drugs; rather, the body’s own cells should be empowered to carry out its own defense to fight back effectively against malignant cells.
Several types of effective immunotherapeutic agents are already available today, such as checkpoint inhibitors, messenger substances of the immune system (cytokines), immunomodulators and therapeutic cancer vaccines.

**CHECKPOINT INHIBITORS** are currently the most well-known immunotherapy approach. The function of these checkpoints is to stop immune reactions before they become too strong and damage normal tissue. However, cancer cells can use this regulation mechanism by producing many of these checkpoint molecules, thereby escaping the attack from the immune system. Checkpoint inhibitors block this regulation mechanism and thus release the “brake”. A strong immune response directed at the tumor is therefore elicited in this manner. However, this approach can also be toxic to normal cells and organs are also attacked by the immune system as a result of the blockade.

**CYTOKINES** are substances such as interferon, interleukin, and growth factors which are secreted by immune cells and have an effect on other cells. They help cells to communicate with each other, for example to stimulate the movement of cells towards sites of inflammation, infection and cancer, or to amplify an immune reaction which has already been triggered.

**IMMUNOMODULATORS** are substances which influence the immune system. In cancer immunotherapy, they are used to activate the body’s defense system so that it can autonomously recognize and combat cancer cells. This type of immunomodulator includes toll-like receptors (TLRs). They serve to identify pathogens such as viruses, bacteria or fungi and initially lead to an activation of the innate immune system to fight off the pathogens.

**THERAPEUTIC CANCER VACCINES** are also an important treatment approach in the field of cancer immunotherapy. They are designed to stimulate the patient’s immune system to recognize existing cancer cells and subsequently to attack them. Patients are injected with their own cells or foreign cells (antigens) from which the immune system learns what cancer cells typically “look like”. It can then “search” for its own tumors cells and fight them.
GROWING IMPORTANCE OF COMBINATION THERAPIES

Effective new treatment options have been created through immunotherapy, and especially through the use of checkpoint inhibitors. However, there is still a long way to go since not all patients respond to treatment with checkpoint inhibitors alone. Cancer immunotherapies are increasingly being tested in combination with each other in order to equip the body’s immune system in an optimum way to fight against cancer. Experts expect to be able to achieve an improvement in the treatment of many advanced cancers which are difficult to treat through immunotherapy combination options. Consequently, it is likely that far more patients it can be assumed to benefit from immunotherapies in future.

This will make it possible to get the best out of various mode of action. The market research company Healthcare Informatics (IMS) expects over 60 combination therapies to be launched on the market by 2020. Combination studies are mainly being targeted at solid tumors, especially lung cancer and melanomas.

MOLOGEN’s lead product candidate, lefitolimod, is being investigated for the first time in a combination study with the checkpoint inhibitor (Yervoy®) Iplimumab. MOLOGEN is also planning to conduct further combination studies with other checkpoint inhibitors. The very successful immunotherapeutic Yervoy®, which was approved in 2011 and is used among other things for the treatment of patients with advanced cancer.
melanoma, represents a breakthrough in cancer immunotherapies. All this confirms that the aim of scientists to activate the body’s own defenses in the fight against tumors can translate into highly effective drugs.

Moreover, lefitolimod has also been tested in further combination studies in mouse models in combination with checkpoint inhibitors. The anti-tumor action of the checkpoint inhibitors used in the model was significantly improved through lefitolimod, thereby extending survival in the mouse model.

**BROAD POTENTIAL**

Apart from fighting cancer, activating the body’s own immune system can be used to treat other diseases. MOLOGEN is therefore also developing product candidates for the treatment of infectious diseases for which there is a high unmet medical need, such as HIV. A phase I/II study with lefitolimod in this indication was started in 2015 and is already in an extension phase. Should the lead product candidate also show good tolerability and efficacy, this would expand the active ingredient’s application spectrum and further increase market potential. This would also apply to the use of lefitolimod in combination with other immunotherapies.

**BLOCKBUSTER APPLICATION POTENTIAL**

Colorectal and lung cancer are two of the most common forms of cancer worldwide. The World Health Organisation (WHO) estimates that there are some 1.4 million new cases of colorectal cancer ever year. Experts suspect that 10 to 20 percent of patients already have the metastatic form of the cancer by the time they are diagnosed. In the case of lung cancer, estimates put the number of new cases at around 1.8 million per year. Small cell lung cancer accounts for around 15 percent to 20 percent of all cases of lung cancer.

Against the background of the WHO’s projected rise in the number of cancer cases, the market potential for new cancer drugs is high. In the case of colorectal cancer alone, sales revenue is expected to rise from an estimated US$ 5 billion at present to over US$ 8 billion in 2023. According to the market research firm GBI Research, the market for cancer immunotherapy could grow to over US$ 70 billion by 2022.

We anticipate correspondingly high market potential for lefitolimod. Blockbuster sales should be possible in the colorectal and lung cancer indications alone.
NEW STRATEGY: NEXT LEVEL
**NEXT LEVEL: THIS STRATEGY REPRESENTS OUR DEVELOPMENT FROM A RESEARCH AND DEVELOPMENT COMPANY TO ONE WITH A PRODUCT AND MARKET ORIENTATION**

### NEXT LEVEL STRATEGY

<table>
<thead>
<tr>
<th>HISTORY</th>
<th>TODAY</th>
<th>OUTLOOK</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RESEARCH DRIVEN</strong></td>
<td><strong>FOCUS ON BASIC RESEARCH</strong></td>
<td><strong>MARKET-FACING</strong></td>
</tr>
<tr>
<td>- Broad pipeline comprised of three technology platforms</td>
<td>- Pipeline focus on lead compound &amp; follow-up</td>
<td>- Harvest Lefitolimod potential</td>
</tr>
<tr>
<td>- Own in-house R&amp;D-scale production (trials fully stocked)</td>
<td>- Streamlined structure, operational efficiency</td>
<td>- Enable commercial-scale production; transition to CMO</td>
</tr>
<tr>
<td></td>
<td>- Structured partnering/licensing activities</td>
<td>- Focus research on follow-up compounds; transition to CRO</td>
</tr>
<tr>
<td></td>
<td>- US strategy being defined</td>
<td>- Reduce headcount while retaining expertise</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Enhance flexibility of cost structure</td>
</tr>
</tbody>
</table>

Legend:  
CMO Contract Manufacturing Organization  
CRO Contract Research Organization
NEW STRATEGY: NEXT LEVEL

Our new strategy, Next Level, unveiled at the beginning of June 2016 is based on the results and findings of the portfolio review carried out in H1 2016.

The primary aim of the new strategy is a clear focus by the company on a timely marketing of products: to evolve from a research and development company towards a product- and market-oriented company. MOLOGEN focuses more than in the past on products which have left the status of basic research behind and reach already closer to the market. This realignment required extensive organizational changes to be made to the company structure. Prior to setting out the new strategy, our portfolio consisted of three platform technologies.

Since the implementation of the new strategy, the focus of development activities has been on the first of the three MOLOGEN proprietary platforms: the TLR9 agonist product family with its lead product, the immunotherapeutic agent lefitolimod and the follow-up molecules EnanDIM®. As such, the majority of the Company’s available financial resources will be channeled into the further development and preparation for market of lefitolimod and its follow-up compound EnanDIM®.

The ability to market the active ingredients, above all lefitolimod, is to be strengthened considerably. We have therefore commissioned a consultancy company which specializes in out-licensing biological products to push on with lefitolimod in an even more precisely targeted manner. The second platform technology, the non-viral vector system MIDGE®, regroups three active ingredient candidates which could not be developed much further in view of limited financial resources and the focus on lefitolimod. Consequently, MOLOGEN had decided to sell or spin off the technology with all related active ingredients. The Company has been conducting in-depth talks with a number of parties to that effect since the autumn of 2016.

PORTFOLIO BEFORE THE IMPLEMENTATION OF THE NEXT LEVEL STRATEGY

<table>
<thead>
<tr>
<th>DNA-BASED TLR9 AGONISTS (ISR)</th>
<th>MIDGE®-VECTOR-SYSTEM</th>
<th>CELL-BASED THERAPEUTIC VACCINATION (MGN1601)</th>
</tr>
</thead>
<tbody>
<tr>
<td>bind to TLR9 receptors</td>
<td>DNA-based, non-viral vector system: &quot;gene ferries&quot;</td>
<td>Genetically modified human renal cancer cell line using MIDGE® platform – combined with low-dose lefitolimod as adjuvant</td>
</tr>
<tr>
<td>Several Immune Surveillance Reactivators (ISR) in development:</td>
<td>Three products in development:</td>
<td>Phase I/II data available</td>
</tr>
<tr>
<td>Lefitolimod (MGN1703): Four trials</td>
<td>MGN1404 (malignant melanoma)</td>
<td>Orphan Drug Status</td>
</tr>
<tr>
<td>EnanDIM®: New class of linear TLR9 agonists</td>
<td>MGN1331 (leishmaniasis)</td>
<td></td>
</tr>
<tr>
<td>Suitable for mono- and combination therapies</td>
<td>MGN1333 (hepatitis B)</td>
<td></td>
</tr>
</tbody>
</table>

FOCUS

DIVESTMENT / SPIN-OFF

BACKUP
In addition, in view of our limited resources, we have decided to shelve the further development of the third platform technology, the cell-based vaccine MGN1601 against renal cancer for the moment. However, in the event of a successful out-licensing of lefitolimod, this would then be resumed.

---

**PRODUCT PIPELINE WITH FOCUS ON CANCER IMMUNOTHERAPIES AND WIDE RANGE OF APPLICATION POSSIBILITIES**

<table>
<thead>
<tr>
<th>PRECLINICAL</th>
<th>PHASE I</th>
<th>PHASE II</th>
<th>PHASE III</th>
</tr>
</thead>
<tbody>
<tr>
<td>EnanDIM®1</td>
<td>Lefitolimod (MGN1703)²</td>
<td>Lefitolimod (MGN1703)²</td>
<td>Lefitolimod (MGN1703)²</td>
</tr>
<tr>
<td>Oncology &amp; Anti-infectives</td>
<td>Other solid tumors</td>
<td>Small cell lung cancer</td>
<td>Colorectal cancer</td>
</tr>
</tbody>
</table>

1. TLR9 agonist
2. Cell line modified using MIDGE® technology with adjuvant low-dose lefitolimod
3. Collaboration with University Hospital Aarhus, Denmark
4. Collaboration with MD Anderson-Cancer Center, Texas, US

- Oncology
- Infectious diseases
- Oncology and infectious diseases
- Oncology combination trials
The measures listed have led to a corresponding staff reduction in the relevant segments. Nevertheless, the Company is keeping its experts within the company in order to ensure the control of necessary external research and production capacity. The short-term cost savings in personnel will be more than neutralized in the medium term by a rise in costs brought about by an expansion of production.

TRANSFORMATION FROM A RESEARCH TO A PRODUCT- AND MARKET-ORIENTED COMPANY

The implementation of the new strategy has also called for an adjustment in the Company’s organizational structures to its new stage of development. These organizational changes were duly implemented during the reporting year.

In particular, we have started to make preparations for a potential market launch, initially for the lead product lefitolimod. This involves above all securing sufficient production capacity for market approval, something which the Company does not have and does not plan to build up. In the past, our own production capacity has covered the manufacture of active ingredients for clinical trials as planned. The consequence is therefore outsourcing production to external service providers, or contract manufacturers, in order to meet regulatory as well as market requirements. Accordingly, internal production ceased at the end of 2016. There are now plans to finalize the choice of contract manufacturers in the first half of 2017.

In view of the focus on our lead product lefitolimod and related reduction in the product portfolio, the basic research activities carried out within the Company were largely wound up and outsourced to contract research companies.

»THIS STRATEGIC REALIGNMENT MEANS THAT WE ARE IN THE MIDST OF A TRANSFORMATION PROCESS FROM A RESEARCH COMPANY TO A STREAMLINED PRODUCT- AND MARKET-ORIENTED COMPANY WITH LESS COMPLEXITY AND REDUCED FIXED COSTS.«
SUMMARY OF THE NEXT LEVEL STRATEGY:
KEY ELEMENTS AT A GLANCE

STRONG PRODUCT- AND MARKET-ORIENTED FOCUS ON KEY PROJECTS, ESPECIALLY LEFITOLIMOD

PORTFOLIO FOCUS

1. On the product family of TLR9 agonists with the lead product lefitolimod and follow-up molecules EnanDIM®
2. Sale or spin-off of MIDGE® technology
3. Initially: shelving of development of cell-based therapeutic vaccine MGN1601; later, potential resumption once lefitolimod has been successfully out-licensed

PREPARATION OF POTENTIAL MARKET LAUNCH AND OUT-LICENSEING OF LEFITOLIMOD

1. Outsourcing and upscaling of production
2. Commission consultancy company for the intensification of out-licensing activities

REALIGNMENT OF COMPANY STRUCTURES TO FIT IN WITH NEW STRATEGY

1. Internal basic research wound up; where necessary, contract research and ongoing work on applied research
2. Reduction in production and research segment – staff with know-how remain with the Company
THE POWER OF IMMUNOTHERAPIES
NEXT LEVEL STRATEGY

NEW PIPELINE: FOCUS ON TLR9 PRODUCT FAMILY
THE DNA-BASED TLR9 PRODUCT FAMILY INCLUDES THE LEAD PRODUCT LEFITOLIMOD, WHICH IS CURRENTLY BEING INVESTIGATED IN FOUR CLINICAL TRIALS, AS WELL AS THE FOLLOW-UP MOLECULES ENANDIM®, WHICH ARE SOON TO BE TESTED IN CLINICAL TRIALS.

»LEFITOLIMOD – BROAD APPLICATION WITH BLOCKBUSTER POTENTIAL AND – ENANDIM® – HIGHLY PROMISING FOLLOW-UP MOLECULES.«
Our lead product, the immunomodulator lefitolimod is the focus of our development work as part of the Next Level strategy. The immunotherapeutic agent is being tested in a phase III pivotal study for the treatment of colorectal cancer. Application in the indication of lung cancer is currently also being trialed in a randomized phase II study. Moreover, the first trial (phase I/II) outside oncology indications began in 2015: in HIV positive patients. In June 2016, the first patient was recruited to an extended phase for this study.

The first combination trial with lefitolimod and the checkpoint inhibitor (Yervoy®) ipilimumab has been ongoing in patients with advanced tumors since mid-2016.

The broad spectrum of application options with lefitolimod promises blockbuster potential – not least in view of its many combination possibilities.

**LEFITOLIMOD – A DUMBELL-SHAPED MOLECULE TRAINING THE IMMUNE SYSTEM**

Lefitolimod is a TLR9 agonist which consists of a DNA-based, dumbbell-shaped molecule. When applied in the fight against cancer, lefitolimod, like other immunotherapeutic agents, does not work directly on the cancer cells; instead, it uses the immune system as a weapon against cancer. Lefitolimod is recognized by the sentinel cells of the immune systems (plasmacytoid dendritic cells or pDCs) which patrol the body. Once lefitolimod puts these immune cells on red alert, they trigger a broad immune reaction to fight the cancer cells.

The immune system is therefore reactivated in order to attack and destroy cancer cells which it was previously unable to recognize or did not systematically attack. Application could not be simpler. The drug is administered twice a week through subcutaneous injections.

The efficacy of lefitolimod in the treatment of cancer, together with a high degree of safety and tolerability has been demonstrated through comprehensive preclinical and clinical data. The most common side effects were minor, such as a slight fever or redness around the injection site. In view of lefitolimod’s mode of action, the agent can also be used to treat specific severe infectious diseases – which is why lefitolimod is currently being tested on patients infected with HIV.
LEFITOLIMOD –
FURTHER MOMENTUM GAINED

After successful completion of phase I and phase II studies, the international phase III pivotal study IMPALA began to recruit first patients in September 2014. The phase III study aims to recruit a total of around 540 patients from eight European countries, including the five most important European pharmaceutical markets. The study will recruit patients suffering from metastatic colorectal cancer who have responded to the standard, first-line therapy. Our lead product lefitolimod will then be administered as a “switch maintenance therapy”. The study’s primary endpoint is overall survival.

The findings from earlier trials were taken into account when setting out the IMPALA study design, such as the evidence from exploratory analyses of the phase II study (IMPACT) on biomarkers. These could enable us to identify patients who are likely to benefit most from treatment with the immunotherapeutic agent lefitolimod. Based on these findings, the aim of the phase III study IMPALA is to show that a “switch maintenance treatment” with an active immunotherapeutic agent could increase overall survival of patients who have responded to prior first-line therapy. In 2016, significant progress was made with patient recruitment and we therefore expect it to be completed during the first months of 2017. The evaluation of the study can only begin once sufficient data has been gathered on overall survival.
LEFITOLIMOD IS ALSO BEING TESTED IN LUNG CANCER

Apart from the phase III study in patients with colorectal cancer, we are currently carrying out a phase II clinical trial in the small cell lung cancer indication. This trial is also looking at the overall survival of patients and involves comparing the maintenance therapy with lefitolimod against the best standard therapy. Recruitment of 100 patients from four European countries began in 2014 and was completed in October 2015. Analysis of the study began at the end of 2016 and results are likely to be available in the course of the first half of 2017.

BROAD APPLICATION SPECTRUM – LEFITOLIMOD BEING EVALUATED IN HIV

Apart from studies in the field of oncology, lefitolimod has also been tested in HIV (Human Immunodeficiency Virus) since 2015. The phase I/II study, “TEACH”, is investigating whether lefitolimod can activate the immune system of HIV patients in such a way as that it can better recognize and destroy infected cells. This could extend the product’s potential application spectrum further.

The study is being carried out in cooperation with Aarhus University Hospital in two hospital centers in Denmark and has already received funding from the American Foundation for AIDS Research (amfAR). MOLOGEN is providing the medication in the form of its immunomodulator lefitolimod.

The first phase of the study began in June 2015 and was completed in September 2016 with the recruitment of 16 patients. In view of positive initial results from this first phase of the study, it has been announced that the study will continue in an extended phase. As part of this phase, patients will be recruited for a longer treatment with lefitolimod. So far, a broad activation of the patient’s immune system has been observed as a result of the active ingredient, evidenced by a pronounced rise in various immune markers. According to these observations, the administration of lefitolimod led, in line with the underlying hypothesis, to a clear activation of plasmacytoid dendritic cells (pDC), of natural killer cells (NK) and T cells in HIV patients receiving antiretroviral therapy (ART). Consequently, lefitolimod could be suitable as an immune surveillance reactivator in “kick-and-kill programs” aimed at eradicating HIV. Initially, patients were treated over a period of one month. The primary endpoint of the first phase of the study is a change in the proportion of activated natural killer cells in patients. The secondary study endpoints include collecting virological, immunological and pharmacodynamic results and data on safety.

The study protocol envisages a longer period of treatment with lefitolimod of six months in 10-15 patients in the second phase of the study. In this extended phase, the primary study endpoint will be to change HIV-DNA in circulating T cells. The key secondary endpoints – apart from an evaluation of safety – will be changes in functional immune parameters. Patient recruitment began in June 2016 and final study results are expected by mid-2017.

In January 2017, our partner, the University of Aarhus, was granted funding of US$ 2.75 million by the biopharmaceutical company Gilead Sciences, Inc. Foster City, USA. The funding will be earmarked to finance a planned clinical trial in HIV-positive patients receiving antiretroviral therapy (ART), in which lefitolimod is to be studied in combination with innovative virus-neutralizing antibodies. The antibodies are being developed by the Rockefeller University in New York, USA. MOLOGEN would provide lefitolimod for the study. This innovative combination, which is to be tested in the context of the planned study, would represent the latest application of the “kick-and-kill” concept for the treatment of HIV.
“KICK-AND-KILL” THERAPEUTIC APPROACH

During antiretroviral therapy (ART), a number of HIV-infected cells of the immune system are in a resting, latent state. This reservoir of non-infectious cells is not recognized by the immune system and leads to multiplication of the human immunodeficiency virus as soon as ART is stopped. The “kick-and-kill” therapy approach now helps to activate the resting, latently infected cells and thus to make them recognizable again for the immune system. This first phase is called the “kick” phase. In the subsequent “kill” phase, the immune system recognizes and kills the activated infected cells. Through its particular mode of action, lefitolimod is able to initiate both phases. First it activates the resting, latently infected immune cells (T helper cells) by activating the dendritic cells (“kick”) and secondly, it stimulates the cells which can destroy these active infected immune cells: the T killer cells and the natural killer cells (NK cells, “kill”).

POSITIVE COMBINATION STUDIES – POTENTIAL FOR EXTENDING THE APPLICATION SPECTRUM

LEFITOLIMOD TOGETHER WITH CHECKPOINT INHIBITOR YERVOY®

The study currently underway as part of a cooperation with the MD Anderson Cancer Center at the University of Texas is the first combination study with lefitolimod. The cooperation involves a phase I study with lefitolimod in combination with the immunotherapeutic agent Yervoy® (ipilimumab) in patients with advanced solid tumors. Yervoy®, which is produced by Bristol-Myers Squibb Co., is a recombinant, human monoclonal antibody which acts as a checkpoint inhibitor and is already approved for the treatment of patients with inoperable or metastatic skin cancer. The study was initiated under the assumption that the combination of both immunotherapies would lead to a broader activation of the immune system and that synergy effects could be obtained.

The aim of the study initially is to work out a dosage which is tolerated where lefitolimod can be administered in combination with Yervoy®. In addition, the safety of the combination therapy will be analyzed. There are also plans for an extension phase in which the aim will be to determine the efficacy of the combination theory.

The study will be carried out by the MD Anderson Cancer Center in Texas. Recruitment of around 50 to 60 patients began in July 2016 and is expected to be completed in the first few months of 2018. MOLOGEN will provide the ISR lefitolimod and fund the trial. Commercially available Yervoy® (ipilimumab) will be used in the study.
LEFITOLIMOD IN A MOUSE MODEL WITH FURTHER CHECKPOINT INHIBITORS

In further combination studies using mouse models, the combination of lefitolimod with checkpoint inhibitors, in this case anti-PD-1 and anti-PD-L1 antibodies, was investigated. The data presented in January 2017 shows that lefitolimod can significantly improve the antitumor effect of anti-PD-1 and anti-PD-L1 antibodies, thus extending survival in the mouse model.

### LEFITOLIMOD (MGN1703) MILESTONES FOR VARIOUS CLINICAL TRIALS

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMPALA</td>
<td>First patient treated</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IMPULSE</td>
<td>First patient treated</td>
<td>Recruitment completed</td>
<td></td>
</tr>
<tr>
<td>TEACH</td>
<td>First patient treated</td>
<td>Recruitment completed first phase</td>
<td></td>
</tr>
<tr>
<td>COMBINATION STUDY</td>
<td>First patient treated</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
»WE ARE CONFIDENT THAT **PATIENTS CAN BENEFIT FROM THE COMBINATION OF VARIOUS IMMUNOTHERAPIES.** IF THIS IS THE CASE, THEN WE COULD **SIGNIFICANTLY EXTEND THE APPLICATION SPECTRUM OF LEFITOLIMOD.**«

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Recruitment completed</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Primary endpoint analysis (OS)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Results</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Start extension phase</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Results</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Recruitment completed</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
TLR9 AGONIST

The mechanism which leads to a broad activation of the immune system is based on the fact that the TLR9 agonist binds to the TLR9 receptor.

TLR9 agonists are biochemical molecules which bind to suitable TLR9 receptors at intracellular level in specific immune cells. These immune cells are components of the innate immune system that serve in the non-specific recognition of pathogens and the recognition of specific DNA sequences of invading pathogens. As a result, they send out signals which lead to a broad activation of the innate immune system and then also the adaptive immune system. Lefitolimod uses this mechanism by simulating an invasion of pathogens with the help of its special DNA pattern.
FOLLOW-UP MOLECULES ENANDIM®: NEXT GENERATION OF TLR9 AGONISTS

The mode of action of EnanDIM® has the potential for application in a whole series of cancer indications. In addition, it could be used as a monotherapy or in combination with other therapies such as immuno-therapeutic approaches. It may also be possible to use EnanDIM® in the field of serious infectious diseases such as HIV.

We presented the first anti-tumor data in the mouse model in September 2016: preclinical in vivo data shows that EnanDIM® reduces tumor growth and can therefore extend survival. So far, we have also been able to show that EnanDIM® molecules bring about a broad activation of immune cells in vitro and have not shown any signs of toxicity after the maximum feasible dose was administered in vivo.

This data represents the next preclinical step towards a clinical development program for EnanDIM® in the treatment of cancer.

»WITH ENANDIM® WE ARE NOW ONE STEP CLOSER TO LAUNCHING A CLINICAL DEVELOPMENT PROGRAM.«

NEW PIPELINE: FOCUS ON TLR9 PRODUCT FAMILY

ENANDIM®

Linear molecules; stability through specific feature
Simple cost-effective production
No chemical modifications
Good safety and tolerability profile expected

- New family of linear TLR9 agonists
- Allow drug differentiation on molecular level
- Broad immune activation and anti-tumor effect shown in preclinical models
- Potential application in cancer and in anti-infective therapies

DNA sequence essential for function (so-called "CG motifs")
new structural feature in EnanDIM providing protection against degradation
MGN1601 is a cell-based therapeutic vaccine being developed to treat advanced renal cancer, a rare form of cancer. To this end, genetically modified human tumor cells are used which are supposed to serve the patient’s immune system as a form of “mug shot” to help it recognize and fight its own cancer cells. This is based on a cell bank of human renal cancer cells which MOLOGEN has established in accordance with pharmaceutical regulatory requirements. These allogenous cancer cells (not the patient’s own cells) are genetically modified using MIDGE® vectors. The vectors take on the function of “gene ferries” and flush specific additional genetic information into the allogenous cancer cells in our cell bank. In addition, the then genetically modified cancer cells are combined with our TLR9 agonist lefitolimod as an adjuvant.

The mode of action of MGN1601 consists first of all in triggering a strong immune reaction against the genetically modified allogenous cancer cells. Once the immune system has “learned” through these cells what the cancer cells look like, a cross-reaction of the immune system is triggered as a result of which it recognizes and hence fights the body’s own cancer cells. MGN1601 is therefore described as a therapeutic vaccine.
CONVINCING RESULTS
OF PHASE I/II STUDY WITH MGN1601

The final results of the ASET clinical phase I/II trial completed in September 2013 were presented at prominent international scientific congresses.

The study looked at the safety and tolerability of MGN1601 in 19 heavily pre-treated patients with advanced renal cancer for whom there were no other treatment options left. Monotherapy with MGN1601 proved safe and well tolerated. In addition, treatment with MGN1601 in a sub-group of patients yielded highly promising data on overall survival.

In addition, in view of the analysis of patient characteristics before the beginning of the treatment, potential predictive biomarkers were identified which may be connected to a longer overall survival period. In future studies, these could in turn enable a more precise selection of patients who would be more likely to benefit from this innovative therapeutic vaccination concept with MGN1601.

For the time being, further development of MGN1601 is being shelved; later, e.g. once lefitolimod has been successfully out-licensed, development is to be resumed.

SPECIAL MARKETING PROTECTION
THROUGH ORPHAN DRUG STATUS

As renal cancer is one of the rarer forms of cancer, MGN1601 has been granted orphan drug status by the European Medicines Agency (EMA). This will allow MOLOGEN ten-year marketing exclusivity for the therapy within the European Union.
THE MOLOGEN SHARE

I Germany’s leading DAX index closes 2016 almost 7% up
I Fall in the price of MOLOGEN shares in the reporting year contrasts with the company’s positive business development
I Successful capital measures: capital increase and convertible bond

DAX: A turbulent trading year ends unexpectedly positively

Price crash, Brexit, Trump election: 2016 was a turbulent year, which was also reflected on the stock markets. The German stock index (DAX) started the year with a crash of 4.3%, consequently losing a large proportion of the gains it had made in 2015 on the first day’s trading in 2016. The first day’s trading closed at 10,283 points. This was caused by concerns about Chinese growth and the problems this might cause German exporters. The stock index recovered somewhat in the course of the first half, even reaching the record level of 10,000 points once more in April 2016. However, the result of the referendum on the UK’s withdrawal from the EU at the end of June 2016 caused a significant fall in value a few weeks later. The second half was somewhat less turbulent, even the election of Donald Trump as the 45th President of the United States only caused a brief collapse in the price. On the last day’s trading, the DAX closed 7% up, at 11,481.06 points, which could scarcely have been anticipated following the setbacks at the beginning of the year. Consequently, the DAX closed the year up for the fifth consecutive year.

The relevant German pharmaceutical and biotechnology industry indices “DAX subsector Biotechnology” and “DAX sector Pharma & Healthcare” recorded respective gains of 6.02% and 10.14% in the 2016 financial year.

Positive business development not yet reflected in share price

MOLOGEN shares started the year in XETRA trading at a price of €4.83, reaching the highest daily closing price in 2016 of €4.95 on January 12, 2016. The price then trended down continuously. On September 20, MOLOGEN shares fell to their lowest daily closing price of €1.20. A slight recovery. Although nevertheless still well below prices at the beginning of the year, the closing price was €1.53 on 30 December 2016, which represents an overall share price decline of approximately 68% for the year. Despite the fall in the share price, the 77% increase in the average volume of MOLOGEN shares traded in XETRA trading – from 18,686 shares to 32,989 shares per day – was remarkable. The positive Company news during the financial year was not reflected in the performance of MOLOGEN’s shares.

Capital measures in 2016

In October 2016, MOLOGEN AG carried out a capital increase by issuing 11,315,750 new shares. The Company’s share capital was raised from €22,631,501 to €33,947,251. The gross proceeds of the capital increase amounted to €13.6 million and are to be used to implement the new “Next Level” strategy. In addition to this, a convertible bond with a total nominal value of €2.54 million was issued to the major shareholder, Global Derivative Trading GmbH (GDT), in November 2016. The capital increase and issuance of a convertible bond generated gross proceeds of €16.1 million in total for the Company. The cash inflow allowed MOLOGEN to continue with the implementation of the Next Level strategy announced in June 2016, which will focus in particular on the development of our lead product lefitolimod. The capital increase was significantly oversubscribed and the convertible bond which was issued to GDT also subject to great interest from other shareholders. Accordingly, MOLOGEN exploited this positive momentum and announced a second convertible bond with subscription rights in December 2016, which led to gross proceeds of almost €5 million just after the end of the reporting year.

Investor relations

A continual and transparent dialog with investors and the capital market is the foremost priority in Investor Relations. Extensive information about the Company’s current performance was again issued on a regular basis during the reporting year. Among other means, conference calls and personal visits to investors were used to inform the market in detail of major corporate developments, such as the new strategic focus. In the context of the capital increase, an online campaign was carried out in addition to the information provided on the website to inform shareholders and draw their attention to the measure. Separate roadshows also took place in this connection. In addition, current research and development activities and the latest scientific data on our products were reported. MOLOGEN published – also within the framework of the leading international scientific conferences – further positive clinical data concerning the lead product lefitolimod, in particular.

Quarterly conference calls were held with analysts and institutional investors in order to explain the respective financial reports soon after publication and answer any questions. In addition, the Executive Board and Investor Relations team conducted regular roadshows in major financial centers throughout Europe and the U.S., including Frankfurt, London and New York, enabling them to maintain dialog with potential and existing institutional investors. Roadshows were also conducted in China for the first time. Good contacts were also established here, which will provide the basis for potential future collaboration.
THE COMPANY

THE MOLOGEN SHARE

Key share data (ISIN DE0006637200, Prime Standard)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>XETRA (closing price)</td>
<td>33,947,251</td>
<td>22,631,501</td>
</tr>
<tr>
<td>Number of shares issued as at 31 December</td>
<td>51.93</td>
<td>108.63</td>
</tr>
<tr>
<td>Market capitalization as at 31 December (€ million)</td>
<td>4.83</td>
<td>5.90</td>
</tr>
<tr>
<td>First trading day (€)</td>
<td>1.53</td>
<td>4.80</td>
</tr>
<tr>
<td>Last trading day (€)</td>
<td>4.95</td>
<td>7.68</td>
</tr>
<tr>
<td>High (€)</td>
<td>1.20</td>
<td>3.45</td>
</tr>
<tr>
<td>Low (€)</td>
<td>32,989</td>
<td>18,686</td>
</tr>
<tr>
<td>Average daily trading volume</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

»THE SUCCESSFUL CONCLUSION OF THE CAPITAL MEASURES IN 2016 DEMONSTRATES THE CONFIDENCE OF EXISTING AND NEW SHAREHOLDERS IN MOLOGEN.«

Shareholder structure as at December 31, 2016 (estimates)

- 29 % Global Derivative Trading GmbH, Germany
- 5 % Deutsche Balaton Aktiengesellschaft, Germany
- 4 % Bâloise Holding, Switzerland
- 4 % Deutscher Ring Krankenversicherungsverein a.G., Germany
- 3 % IPConcept (Luxembourg) S.A., Luxembourg
- 55 % Free float

Performance of MOLOGEN shares in 2016

- MOLOGEN AG
- DAXsector Pharma & Healthcare
- DAXsubsector Biotechnology

02/01/2016  28/03/2016  28/06/2016  30/09/2016  31/12/2016
REPORT OF THE SUPERVISORY BOARD

»IN FISCAL YEAR 2016 THE ESSENTIAL TRANSFORMATION STEPS WERE TAKEN TO SHIFT FROM BEING A RESEARCH COMPANY TO AN AGILE MARKET-ORIENTED BIOPHARMACEUTICAL COMPANY.«

COLLABORATION BETWEEN EXECUTIVE BOARD AND SUPERVISORY BOARD

In fiscal year 2016, the Supervisory Board took great care to duly perform the duties incumbent upon it under the law, the company’s Articles of Association and its internal rules of procedure. We have accompanied the Executive Board in the management of the company in an advisory manner, closely evaluated and monitored its management activities and dealt with the operational and strategic development of the company. In particular, the benchmarks for the supervision were the legality, correctness, suitability and cost-effectiveness of management as well as the performance of risk management and the company’s organizational structure. The Supervisory Board concerned itself at length with the situation and development of the company as well as business transactions in fiscal year 2016.

The Executive Board complied with its duty to provide information and regularly, promptly and comprehensively informed the Supervisory Board in written and verbal reports about all business transactions and events of material importance for the company, business development, the business and financial situation, the strategic further development and corporate planning as well as the risk situation and risk management of the company. In our meetings, we had the opportunity to discuss in depth the reports and draft resolutions of the Executive Board. Specifically, this related to measures that require the approval of the Supervisory Board and all transactions of significance with respect to profitability and liquidity. The Executive Board answered all our questions with the necessary detail and, in this context, also provided all relevant documents to the Executive Board in a timely manner. Any deviations from the corporate planning were explained in detail. Outside the Supervisory Board meetings, the Supervisory Board received verbal and written updates on ongoing business developments and important business transactions from the Executive Board regularly and on the occasion of specific events. We were consequently consulted directly and without delay on all decisions of material importance for the company.

Where specific measures are subject to Supervisory Board approval by law or under the company’s Articles of Association and its internal rules of procedure, decisions were taken to this effect. On a regular basis, the Supervisory Board members diligently prepared for decisions on measures of the Executive Board requiring their approval with the aid of documents that were provided promptly by the Executive Board in advance. The Supervisory Board discussed the pending intentions awaiting a decision with the Executive Board in a timely manner. Between the Supervisory Board’s plenary meetings, the Chairman of the Supervisory Board regularly exchanged information and ideas with the Executive Board. The Chairman of the Supervisory Board and the Executive Board also regularly discussed strategic matters and those relating to risk management, the risk situation, planning and compliance.
Dipl. Kfm. Oliver Krautscheid
Chairman and member of the Supervisory Board

Dr. med. Stefan M. Manth
Deputy Chairman and member of the Supervisory Board

Susanne Klimek
Member of the Supervisory Board
MEETINGS OF THE SUPERVISORY BOARD AND WORK PRIORITIES

In fiscal year 2016, the Supervisory Board held a total of 17 face-to-face meetings and 16 video or telephone conference calls, with full attendance/participation of all Supervisory Board members. Of the 33 meetings in the financial year, the Supervisory Board billed 29 meetings. In addition, two decisions were made outside of the Supervisory Board meetings in the reporting year. There were no committee meetings, because the Supervisory Board has not formed any committees on account of its size.

The high meeting frequency was above all necessary to provide advisory support to the Executive Board for the capital increase, partnering activities and fundamental strategic matters, with the Supervisory Board specifically focusing on the following key areas:

- The comprehensive analysis of the corporate strategy and the overall portfolio with the resultant strategic realignment of the company (Next Level strategy).
- Consultations with consideration of advantages and disadvantages as well as decisions on implementation measures subject to approval resulting from the Next Level strategy, such as portfolio adjustment, restructuring and staff reduction, the closure of in-house GMP-compliant (good manufacturing practice-compliant) production for investigational drugs and preparations for outsourcing to contract manufacturers.
- Extensive consultation on partnering activities of the Executive Board requiring approval, including the discussion of licensing concepts and agreement of key data regarding content, scope and commercial conditions.
- Consultations and progress checks for the reduction of operational risks and in-depth preparations for the strategic exploitation of opportunities. In the reporting year, the management completed a scientific consultation with the European Medicines Agency (EMA) for the clinical project IMPALA and accompanied a routine inspection that was carried out by the Regional Office for Health and Social Affairs (Landesamt für Gesundheit und Soziales; LaGeSo) for our IMPALA clinical study. Both assessments confirmed the diligent work being carried out on our key project.
- The advice and evaluation of progress in the development of the product portfolio (especially the clinical studies IMPALA, IMPULSE and TEACH as well as critical trials that were planned or due to commence in 2016 for the combination of leflunomide with other immunotherapeutic agents, pre-clinical experiments and initial results with potential leflunomide follow-up molecules).
- Discussions and resolutions pertaining to capital measures, especially: (a) approval of a capital increase from authorized capital, for which 11,315,750 new shares were issued within the framework of a subscription rights offering by means of a security prospectus, generating gross proceeds of €13.6 million, (b) approval for the issuance of convertible bond 2016/24 for an estimated maximum of 1,693,333 shares and gross proceeds of €2.54 million as well as (c) approval for the issuance of convertible bond 2017/25 for an estimated maximum of 3,124,994 shares.
- Dealing with various other transactions requiring approval, especially research investment, co-operations and consultancy contracts.
- The personnel matters relating to the Executive Board associated with changes in the Executive Board implemented in 2015, in particular, the successors to the positions of Chief Financial Officer (CFO) and Chief Medical Officer (CMO), specifically: (a) the composition and amendment of the job and skill profiles in line with the Next Level strategy, (b) the targeted recruitment of managers, (c) the preparation for and conduct of a number of candidate interviews and (d) service contract negotiations and conclusion, adjustments to business allocation plans as well as deliberations and decisions relating to the bridging solutions in the area of clinical development.
- The Supervisory Board focused on the appeal proceedings in relation to the legal challenges to Annual General Meeting resolutions in 2014 (including the election process, German Corporate Governance Code, nominations and voting right approvals) and 2015 (including restriction of time allowed to speak, nomination process/voting outcome, calling of the Annual General Meeting, chairing of the meeting, discharge resolutions) as well as the detrimental impact on and risks for the company. Both proceedings were dismissed in full at first instance on September 3, 2015 and March 4, 2016. Subsequently, the company also won the two appeal proceedings initiated by the plaintiff according to judgments by the Court of Appeal in Berlin in January 2017.
- Addressing compliance topics, in particular (a) the implementation of findings from the executed compliance audit, (b) dealing with the official authority inspection carried out by the Regional Office for Health and Social Affairs Berlin (LaGeSo) and (c) the verification of change order management with the contract research organization commissioned by MOLOGEN for the major clinical project, the phase III pivotal study IMPALA.

The Supervisory Board’s deliberations and resolutions also focused on the following topics:

- Monthly in-depth discussion of progress in patient recruitment, discussion of measures and approval of budgets to speed up clinical programs.
- Discussions on the company’s strategic direction, the analysis of key competencies, options to extend patents, prioritizing the development pipeline and investment in pre-clinical development candidates.
- Extensive consultation and resolutions in connection with the various capital measures mentioned above (prospectus capital increase and a private placement in 2016).
Discussions on risk management considerations and recommendations of measures in respect of new business transactions, contracts and developments in the sector.

Own audit of the annual financial statements for 2015 and the quarterly reports in 2016, focus of the audit in consultation with the auditor as well as the adoption of the annual financial statements 2015 in accordance with the German Commercial Code (Handelsgesetzbuch; HGB) and IFRS.

Discussion and approval of the joint declaration of compliance with the German Corporate Governance Code by the Executive Board and Supervisory Board for 2016 and of the flexible quota, i.e. setting a target for the appointment of women to the Supervisory Board, Executive Board and management team.

Adoption of resolutions in connection with preparations for the 2016 Annual General Meeting.

Ongoing efficiency reviews of the Supervisory Board.

Resolution approving the issuance of employee and Executive Board stock options as part of the 2014 share option program.

Approval to give procurement to managers below the Executive Board level.

In addition, the Supervisory Board regularly reviewed the company’s financial reports. The Supervisory Board approved the annual financial statements in accordance with the HGB and the individual annual financial statements under IFRS for fiscal year 2016.

In the course of a comprehensive efficiency review by the Supervisory Board, measures to reduce the number of meetings were identified and implemented at the start of 2017 in collaboration with the Executive Board.

INVESTOR MEETINGS

In the reporting year, the Supervisory Board held talks with individual investors, represented by the Chairman of the Supervisory Board. The main areas of focus were: The requirement profile for the nomination proposal of the Supervisory Board positions to be filled in 2016, the competence profile of the Executive Board and Supervisory Board remuneration. In addition, the Chairman of the Supervisory Board participated in discussions between the Executive Board and major shareholders, especially in relation to capital measures, subscription guarantees and the agenda of the Annual General Meeting.

CORPORATE GOVERNANCE AND DECLARATION OF COMPLIANCE

In the reporting year, no conflicts of interest on the part of members of the Executive Board and Supervisory Board arose which are to be brought to the attention of the Supervisory Board without delay and reported at the Annual General Meeting.

There were no consulting or other business relationships for the provision of services between members of the Supervisory Board and the company in the year under review.

With the departure of Dr. Alfredo Zurlo from the Executive Board as of March 31, 2016, a consultancy contract was concluded for a number of transition months, which has in the meantime concluded.

Compliance with the German Corporate Governance Code was continuously monitored by the Supervisory Board. In most respects, the company complied with the recommendations of the Government Commission on the German Corporate Governance Code.

The joint declaration of the Executive Board and Supervisory Board concerning the Code for fiscal year 2017 is accessible on the company’s website.

The Supervisory Board critically examined the efficiency of its work at regular intervals, specifically, the availability of Supervisory Board members, the frequency of meetings as well as meeting preparation, conduct and the taking of minutes. The Supervisory Board subsequently made a positive assessment of its efficiency.

MEMBERS OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD

Dr. Mariola Söhngen took over as the Chief Executive Officer (CEO) on November 1, 2015 and Walter Miller was appointed Chief Financial Officer (CFO) effective April 1, 2016. The position of a new Chief Medical Officer (CMO) on the Executive Board was also filled at the end of 2016, with Dr. Matthias Baumann scheduled to join the Executive Board of MOLOGEN on May 1, 2017. Since Dr. Alfredo Zurlo left the Executive Board (at the end of March 2016), the area of clinical development was temporarily filled internally and managed by an experienced doctor in the field. In the reporting period, the Supervisory Board was unchanged, comprising Oliver Krautscheid (Chairman), Dr. Stefan M. Manth (Deputy Chairman) and Susanne Klimek. Susanne Klimek was officially confirmed in office by shareholders at the company’s Annual General Meeting 2016.
ANNUAL FINANCIAL STATEMENTS AND INDIVIDUAL FINANCIAL STATEMENTS, AUDIT

At the Annual General Meeting held on August 11, 2016, Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft was re-elected as auditor for the financial year ending on December 31, 2016. On behalf of the Supervisory Board, the annual financial statements as of December 31, 2016, prepared by the Executive Board in accordance with the provisions of the HGB, and the management report for fiscal year 2016, prepared by the Executive Board, were audited by Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft. In particular, the audit process focused on the review of the continuation prognosis, the completeness of provisions, figures on other financial liabilities, disclosures in the management report on the forecast and risks as well as the early risk recognition system in accordance with Section 91 Para. of the German Stock Corporation Act (AktG). The Executive Board also prepared individual annual financial statements as of December 31, 2016 under IFRS, as applicable in the EU, in accordance with Section 325 Para. 2a of the HGB. The management report prepared by the Executive Board additionally makes reference to the individual annual financial statements under IFRS, as applicable in the EU. The Supervisory Board also awarded the contract for auditing the individual annual financial statements under IFRS, as applicable in the EU, to Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft and satisfied itself of their independence.

The Supervisory Board supplemented the usual aspects of the audit of the annual financial statements to include a further topic in the audit, namely “IT security” with the involvement of specialists by the auditor. The company's auditor incorporated the recommendations in their audit program for 2016 and reported extensively on their findings in the balance sheet meeting. The following topics were the focus of the audit by the Supervisory Board: the management report, change order management for a major project, reach analysis of investigational drugs, compliance matters, the adequacy of risk management in the core areas of the company as well as internal controls (signature regulations).

The audit by Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft did not lead to any objections. The auditor concluded that the individual annual financial statements as of December 31, 2016 pursuant to IFRS, as applicable in the EU, in accordance with Section 325 Para. 2a of the HGB, provide a true and fair picture of the assets and liabilities, the financial performance and financial position of the company. An unqualified auditor's opinion was also issued for the annual financial statements as of December 31, 2016 in accordance with the HGB.

Furthermore, the auditor stated that the management report, which is consistent with the individual financial statements in accordance with Section 325 Para. 2a of the HGB, and the annual financial statements, in accordance with the HGB, on the whole provide a true picture of the company's situation and accurately present the opportunities and risks of future development. Without qualification of this assessment, the auditor referred to the financial risks which are explained in the management report.

The annual financial statements in accordance with the HGB, the individual annual financial statements under IFRS, as applicable in the EU, the management report, which also refers to the individual financial statements, and the draft audit reports were made available to members of the Supervisory Board on time, were examined by the Supervisory Board in line with the legal provisions and then discussed in detail at the Supervisory Board meeting held on March 6, 2017 in the presence of the Executive Board and of the auditor. The auditor reported to the Supervisory Board on the key findings of the audit and was available to answer questions and provide further information.

Following subsequent discussion on March 14, 2017, the Supervisory Board approved the findings of the audit of the financial statements and the auditor’s reports. The in-house audit and discussion resulted in no objections to the annual financial statements or the individual financial statements. The topics of deliberations were the subjects of the audit detailed above. In addition, the Supervisory Board approved the management report, which also refers to the individual financial statements, and the statements contained therein concerning the company's development. The financial statements were then approved by the Supervisory Board without restriction or supplements. The annual financial statements as of December 31, 2016 are therefore adopted in accordance with the HGB pursuant to Section 172 of the AktG.

The Supervisory Board would like to thank the Executive Board members Dr. Mariola Söhngen and Walter Miller as well as all employees of MOLOGEN AG for their dedication and exceptional work over the past year of transformation. In various areas of the company, risks were further reduced and intensive preparations completed to make optimum use of opportunities. We would also like to thank our shareholders for their confidence in the company.

Berlin, March 15, 2017

Oliver Krautscheid
Chairman of the Supervisory Board
»IN 2016 WE HAVE CARRIED OUR CAPITAL MEASURES SUCCESSFULLY.«

<table>
<thead>
<tr>
<th>MANAGEMENT REPORT</th>
<th>42</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMPANY OVERVIEW</td>
<td>44</td>
</tr>
<tr>
<td>ACCOUNTING</td>
<td>45</td>
</tr>
<tr>
<td>GENERAL CONDITIONS</td>
<td>45</td>
</tr>
<tr>
<td>COURSE OF BUSINESS</td>
<td>47</td>
</tr>
<tr>
<td>FINANCIAL PERFORMANCE AND FINANCIAL POSITION</td>
<td>52</td>
</tr>
<tr>
<td>FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS</td>
<td>55</td>
</tr>
<tr>
<td>OVERALL STATEMENT ON BUSINESS PERFORMANCE AND THE POSITION OF MOLOGEN</td>
<td>56</td>
</tr>
<tr>
<td>FORECAST, OPPORTUNITIES AND RISK REPORT</td>
<td>56</td>
</tr>
<tr>
<td>REMUNERATION REPORT</td>
<td>63</td>
</tr>
<tr>
<td>INFORMATION ACCORDING TO SECTION 289 PARA. 4 OF THE HGB</td>
<td>65</td>
</tr>
<tr>
<td>CORPORATE GOVERNANCE REPORT AND DECLARATION ON CORPORATE MANAGEMENT PURSUANT TO SECTION 289A OF THE HGB</td>
<td>66</td>
</tr>
</tbody>
</table>
MANAGEMENT REPORT

I NEW NEXT LEVEL STRATEGY BASED ON PORTFOLIO REVIEW
I FURTHER PROGRESS IN CLINICAL TRIAL WITH THE LEAD PRODUCT, LEFITOLIMOD; SIGNIFICANT MILESTONES REACHED
I INCREASE IN R&D EXPENSES TO € 17.0 MILLION OWING TO STUDY PROGRESS
I SUCCESSFUL CAPITAL INCREASE AND ISSUANCE OF CONVERTIBLE BOND: GROSS PROCEEDS TOTALING € 16.1 MILLION
I CASH AND CASH EQUIVALENTS AMOUNTING TO € 20.5 MILLION

In fiscal year 2016, the focus of activities was on carrying out a portfolio review, developing and implementing the new Next Level strategy as well as the further development of clinical trials with the lead product, lefitolimod. Further progress was made in enrolling patients for the IMPALA study (phase III pivotal study in colorectal cancer). Positive initial results for the TEACH study (phase I/II in the human immunodeficiency virus; HIV) were followed by the start of an extension phase, with prolonged treatment for patients. At the start of 2016, MOLOGEN also concluded a cooperation agreement with the MD Anderson Cancer Center to carry out a combination study in solid tumors (with ipilimumab and lefitolimod). Patient enrollment commenced in July 2016.

Owing to progress in clinical trials, expenses for research and development (R&D) remained at a high level of € 17.0 million, which is slightly higher than in the same period of the previous year (2015: € 16.8 million). At € –21.0 million, EBIT was slightly below the previous year’s figure of € –20.5 million.

The capital increase completed in October 2016 and the issuance of a convertible bond in November 2016 generated total gross proceeds of € 16.1 million for the company. In addition, a second convertible bond in the amount of € 4.99 million was successfully placed in January 2017. Based on the funds now available, the financing of the company is expected to be secured until the start of 2018. As of December 31, 2016, cash and cash equivalents (excluding the gross inflow of € 4.99 million from the second convertible bond in 2017) totaled € 20.5 million (12/31/2015: € 24.6 million). This decline on the prior year’s reporting date is due to the lower refinancing volume in 2016.

The lead product, the immunotherapy lefitolimod, acquired international nonproprietary name (INN) status in January 2016, when “lefitolimod” was chosen for MGN1703. It has since been officially listed under this name at the World Health Organization (WHO). INNs are names for active ingredients as recommended by the WHO. In contrast to brand names, which are registered trademarks (identified with ®) that belong exclusively to a particular manufacturer, these are not protected under trademark law.

COMPANY OVERVIEW

MOLOGEN AG (hereinafter: MOLOGEN) is an international bio-pharmaceutical company. In addition to a core focus on oncology, R&D activities also concentrate on infectious diseases. MOLOGEN researches and develops various drug candidates in these fields, primarily addressing diseases with substantial unmet needs.

These are based on proprietary technology innovations enabling, or decisively facilitating, the use of deoxyribonucleic acid (DNA; carrier of genetic information) to treat previously untreatable or only insufficiently treatable diseases as well as improving the quality of life. The technologies are patented and conducted under the dSLIM® (lefitolimod), EnanDIM® and MIDGE® brands. In addition, MOLOGEN has a unique tumor cell bank categorized according to pharmaceutical regulatory requirements which is used for proprietary cell-based cancer treatments. In connection with the Next Level strategy, current developments are above all based on our dSLIM® and EnanDIM® technologies at present.

MOLOGEN investigates the proprietary product candidates and develops them within the framework of pre-clinical tests and clinical trials. The aim is to out-license product candidates to pharmaceutical companies after successfully verifying clinical efficacy. Licensing revenue that may consist of upfront and milestone payments, as well as royalties, should help enable further growth and make MOLOGEN profitable.

MOLOGEN was founded in 1998 as a joint stock corporation under German law and the company went public in the same year. The company’s shares have been traded on the Prime Standard on the Frankfurt Stock Exchange since June 2009.

The registered office of MOLOGEN is in Berlin; no other locations exist. The company is registered in the Commercial Register of the Local Court at Berlin-Charlottenburg under the number HRB 65633 B.
ACCOUNTING

This management report refers to the annual financial statements drawn up in accordance with the German Commercial Code (HGB). In addition, it refers to the individual annual financial statements in accordance with Section 325 Para. 2a of the HGB in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). MOLOGEN will disclose these individual annual financial statements with Section 325 Para. 2a of the HGB in accordance with IFRS (hereinafter also referred to as: IFRS individual annual financial statements), as adopted by the EU pursuant to the provisions of German commercial law.

The financial figures in this management report refer to the IFRS individual annual financial statements of MOLOGEN. Figures referring to the annual financial statements in accordance with the HBG are marked accordingly.

SEGMENT REPORTING

MOLOGEN does not prepare segment reporting as the technologies and product candidates are still in the research and clinical development stages. Cash flows and corresponding expenses cannot be clearly attributed to the individual product candidates or technologies because different combinations of proprietary and licensed technologies are used for different product candidates. In this context, segment reporting would not provide any additional information compared with the information contained in the other components of the financial statements or the management report.

GENERAL CONDITIONS

MACROECONOMIC DEVELOPMENT

I STABLE UPWARD TREND FOR OVERALL GLOBAL GROWTH COURSE IN 2016

The global economy remained on a stable, moderate growth course in 2016. In its latest forecast, the International Monetary Fund (IMF) is predicting that global economic growth will be 3.1% for 2016. Consequently, the forecast is unchanged when compared with the first half of the year. Despite uncertainty on future economic developments in the USA and the associated consequences for the rest of the world, experts anticipate that slight global growth to 3.4% will again be achieved in 2017. In the coming months, it will become apparent what impact the new U.S. government will have on the global economy.

Alongside low commodity prices, reasons for this moderate global economic growth in 2016 above all include political decisions and upheaval, such as the attempted coup in Turkey, the Brexit referendum and the election of Donald Trump as the 45th President of the USA. However, the impact of these developments has so far only been evident in some areas, with tourist numbers down in Turkey, for example. By contrast, Brexit does not as yet appear to have had any direct consequences, with growth in the UK in fact exceeding expectations and improving to 2%. At present, the IMF is predicting growth of 1.7% for Europe in 2016. However, it is only expected to amount to 1.6% for the coming year.

The German economy registered a significant surge in growth towards the end of the year. According to a preliminary forecast from the Federal Office for Statistics, gross domestic product (GDP) will increase by 1.8% on the previous year in 2016. This would be the strongest pace of growth in five years. It is attributable to the rise in public spending to 4.2%, which is flowing into the accommodation of refugees, among other areas. For 2017, the Federal Office for Statistics is forecasting a year-on-year change in GDP of 1.2% against 2016.

DEVELOPMENT OF THE PHARMACEUTICAL AND BIOTECHNOLOGY INDUSTRIES

I SALES FOR DRUGS EXPECTED TO INCREASE TO UP TO US$ 1.5 TRILLION WORLDWIDE IN THE NEXT DECADE

I GLOBAL MARKET VOLUME FOR CANCER THERAPIES IS FORECAST TO RISE TO US$ 190 BILLION IN 2022

I CANCER IMMUNOTHERAPIES ARE REVOLUTIONIZING THE TREATMENT OF TUMOR DISEASES

Market research company Quintiles Institute for Healthcare Informatics (IMS) predicts that the drugs market will continue to record robust growth. Accordingly, global total expenditure on drugs will rise to around US$ 1.5 trillion by 2021. According to the “World Preview 2016, Outlook to 2022” survey conducted by EvaluatePharma, sales from prescription drugs are expected to increase by more than 6% a year up to 2022.

PHARMACEUTICAL INDUSTRY: DEVELOPING COUNTRIES AND CANCER TREATMENTS BECOMING MORE IMPORTANT

According to data for 2016 from the German Pharmaceutical Industry Association, North America, Europe and Japan accounted for over 70% of the total sales of the global pharmaceuticals market in 2015 and the trend is rising. Drug sales have also recorded continuous growth in the five emerging markets of Brazil, Russia, India, China and South Africa (BRICS), with sales up nearly 12% to US$97 billion overall between 2013 and 2014 alone. The significance of these markets for the pharmaceutical industry will continue to increase in the next few years.
In the area of prescription pharmaceutical drugs, the share of biotechnologically produced drugs is expected to rise to 29% by 2022. In 2015, the share was 24%. Cancer treatments will account for by far the greatest share of sales. Quintiles IMS predicts that cancer treatments will generate between US$ 120 billion and US$ 135 billion by 2021.

SHARP RISE IN THE INCIDENCE OF CANCER EXPECTED

A report by the Global Burden of Disease Cancer Collaboration published in the JAMA Oncology journal stated there were an estimated 17.5 million cancer cases around the globe in 2015. In the same year, there were 8.7 million deaths attributable to the disease. According to the report, the number of new cancer cases recorded between 2005 and 2015 rose by 33%. Despite various promising therapeutic approaches, such as immunotherapies, it is assumed that the number of people affected by cancer will continue to grow in the future. In its most recent World Cancer Report, the WHO predicts that incidences of cancer will increase by 40% over the next 10 years. According to UBS, this means that 22 million people worldwide could develop cancer each year by 2030.

The growth rates in the oncology market are correspondingly high. EvaluatePharma predicts a global market volume of US$ 190 billion by 2022. Oncology is therefore the therapeutic area with the highest growth rates and, based on the market research company’s projections, it will also remain the pharmaceutical market segment with the strongest sales worldwide in the long term, with an expected share of around 15% in 2020.

The pharmaceutical sector continues to invest extensively in the research and development of innovative cancer treatments. According to IMS, it accounts for more than 30% of all product development.

MARKET POTENTIAL OF CANCER IMMUNOTHERAPIES IS US$ 70 BILLION

The highly promising area of cancer immunotherapies has the potential to revolutionize the treatment of tumors. The first studies in melanomas and lung cancer have above all already delivered positive results with regard to the efficacy of cancer immunotherapies: a significant prolongation of survival was observed in these patients when compared with conventional cancer therapies. As per estimates from the market research organization GBI Research, the market for cancer immunotherapies could rise to more than US$ 70 billion by 2022. Immunotherapies known as checkpoint inhibitors recorded sales of over US$ 1 billion in both 2015 and 2016.

SIGNIFICANT MARKET POTENTIAL IN INFECTIOUS DISEASES TOO

Furthermore, in addition to being used in oncology, immunotherapies also have the potential to combat infectious diseases such as HIV, for example. On account of the rising numbers of patients living with the disease AIDS – UNAIDS estimates this to be 30 million by 2020 – a major market with sales potential in the billions for immunotherapies such as lefitolimod is opening up in this field as well.

Although the overall trend is towards growth, the biotechnology industry continues to face significant challenges. It can take ten years or more before a drug is successfully launched on the market. This often necessitates several successful rounds of funding, with the follow-up funding after the foundation phase often proving difficult for many biotechnology companies.

A further problem is also the broadening of market shares for generics, as well as stricter laws and approval regulations. Conditions for market approval and subsequent market penetration are also becoming complicated in many countries due to health care reforms, which almost always result in cost-cutting.

New trends can be observed as pharmaceutical companies react to expiring patents and shrinking product pipelines. They are developing new business segments, while also investing more heavily in the development of niche products and personalized medicine. There is also increased activity in the area of mergers and cooperations, including at international level.

It cannot yet be reliably predicted what impact current geopolitical developments, such as the decision of the UK to leave the EU and the election of Donald Trump as U.S. President, will have on the global pharmaceutical and biotechnology industries in the short and medium term. Overall, it is evident that new opportunities are arising for the biotechnology sector due to increased demand for innovative drugs and treatment methods, above all in the area of oncology.

In this context, the business prospects for MOLOGEN can be assessed as very positive in the long term.

LEGAL FRAMEWORK

The regulatory framework conditions for the research and development of new drugs are particularly relevant for MOLOGEN. This area is regularly subject to changes and further development. As a whole, the changes in the framework conditions have not excessively affected the business activities of MOLOGEN.
For the market potential of proprietary product candidates, the framework conditions in the health sector are especially relevant in the EU and USA and, in this context, the continuing cost pressure in health care systems, in particular.

With regard to the current geopolitical developments around the world, no reliable statements can yet be made about the short and medium-term impact on the biotechnology and pharmaceutical industries as a whole and what changes and risks will arise for MOLOGEN as a result.

**COURSE OF BUSINESS**

I **THE NEW NEXT LEVEL STRATEGY: STRONG PRODUCT AND MARKET ORIENTATION WITH A FOCUS ON TLR9 PRODUCT FAMILY WITH LEFITOLIMOD AND THE FOLLOW-UP TECHNOLOGY ENANDIM®**

I **ACTIVITIES CONCENTRATE ON CLINICAL TRIALS WITH THE LEAD PRODUCT, LEFITOLIMOD**

I **SIGNIFICANT PROGRESS IN PATIENT ENROLLMENT FOR PHASE III IMPALA PIVOTAL STUDY FOR COLORECTAL CANCER**

I **INITIAL POSITIVE RESULTS IN THE PHASE I/II TEACH STUDY IN HIV LEADS TO CONTINUATION OF STUDY IN EXTENSION PHASE**

I **START OF COMBINATION STUDY WITH CHECKPOINT INHIBITOR BY COLLABORATION PARTNER, THE MD ANDERSON CANCER CENTER, TEXAS, USA**

I **LATEST R&D FINDINGS PRESENTED AT SCIENTIFIC CONFERENCES**

I **CAPITAL INCREASE CARRIED OUT – GROSS PROCEEDS OF € 13.6 MILLION**

I **ISSUANCE OF A € 2.5 MILLION CONVERTIBLE BOND TO MAJORITY SHAREHOLDER**

The company’s activities in fiscal year 2016 focused on the clinical trials with the lead product lefitolimod, the portfolio review and development and implementation of the new Next Level strategy.

**NEW NEXT LEVEL STRATEGY**

At the start of June 2016, MOLOGEN introduced its new Next Level strategy (cf. sub-section New strategy: Next Level in Chapter 1 of this Annual Report). The strategy is essentially based on the results and insights of the portfolio review carried out in the first half of 2016.

The primary aim of the new strategy is to distinctly focus the company on the prompt marketing of products: the evolution from a research company to a product and market-oriented company. MOLOGEN will concentrate on products which are no longer at the basic research stage and are already closer to market. The new strategy also led to comprehensive organizational changes in the corporate structure during fiscal year 2016.

**SUMMARY OF NEXT LEVEL STRATEGY: OVERVIEW OF MAIN ELEMENTS**

I **STRONG PRODUCT AND MARKET-ORIENTED FOCUS ON KEY PROJECTS, ESPECIALLY LEFITOLIMOD**

I **FOCUSED PORTFOLIO**

I **TLR9 AGONIST PRODUCT FAMILY WITH THE LEAD PRODUCT, LEFITOLIMOD, AND FOLLOW-UP MOLECULES, ENANDIM®**

I **SALE OR SPIN-OFF OF MIDGE® TECHNOLOGY SHELVED**

I **FURTHER DEVELOPMENT OF CELL-BASED THERAPY WITH THE VACCINE MGN1601; POTENTIAL RESUMPTION OF THE PROJECT DOWN THE LINE, E.G. IF LEFITOLIMOD IS SUCCESSFULLY OUT-LICENSED**

I **PREPARATION FOR POTENTIAL MARKET ENTRY AND OUT-LICENSEING OF LEFITOLIMOD**

I **PRODUCTION TO BE OUTSOURCED AND UPSCALED**

I **ACTIVITIES RELATED TO OUT-LICENSEING STEPPED UP**

I **CORPORATE STRUCTURES TO BE ALIGNED WITH NEW STRATEGY BY THE END OF 2016**

I **IN-HOUSE BASIC RESEARCH TO BE DISCONTINUED; CONTRACT RESEARCH AND CONTINUATION OF APPLIED RESEARCH, WHERE NECESSARY**

I **DECREASE IN STAFFING LEVELS IN AREAS OF PRODUCTION AND RESEARCH, BUT SPECIALISTS REMAIN WITH COMPANY**

As a result of in-house basic research being discontinued and the outsourcing of production, previously required premises no longer need to be leased.

**NEW CHIEF FINANCIAL OFFICER**

Walter Miller was appointed Chief Financial Officer (CFO) of MOLOGEN as of April 1, 2016. He is responsible for Finance and Administration as well as Personnel, Risk Management, Compliance and Corporate Governance, Legal Affairs and IT.

**RESEARCH AND DEVELOPMENT (R&D)**

In fiscal year 2016, the focus of R&D was above all on clinical trials with the lead product, lefitolimod: the phase III IMPALA pivotal study in the indication colorectal cancer; the phase II IMPULSE clinical trial for lung cancer; the extension phase I/II TEACH study in the indication HIV and the phase I combination study with a checkpoint inhibitor.
R&D EXPENSES

Expenses and investment in R&D amounted to €17.0 million in fiscal year 2016 (2015: €16.8 million) and are essentially attributable to the two IMPALA and IMPULSE clinical trials with lefitolimod, as in the previous year.

PRODUCT PIPELINE WITH FOCUS ON CANCER IMMUNOTHERAPIES AND WIDE RANGE OF APPLICATION POSSIBILITIES

<table>
<thead>
<tr>
<th>PRECLINICAL</th>
<th>PHASE I</th>
<th>PHASE II</th>
<th>PHASE III</th>
</tr>
</thead>
<tbody>
<tr>
<td>EnanDIM®</td>
<td>Lefitolimod (MGN1703)</td>
<td>Lefitolimod (MGN1703)</td>
<td>Lefitolimod (MGN1703)</td>
</tr>
<tr>
<td>Oncology and Anti-infectiva</td>
<td>Other solid tumors</td>
<td>Small cell lung cancer</td>
<td>Colorectal cancer</td>
</tr>
<tr>
<td></td>
<td></td>
<td>HIV</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>HIV</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lefitolimod (MGN1703)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>and Yervoy® (ipilimumab)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Advanced solid malignancies</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>MGN1601</td>
<td>Renal cancer</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

IMMUNOTHERAPY LEFITOLIMOD

Lefitolimod is an immunotherapy and the most advanced TLR9 agonist in MOLOGEN’s portfolio. Lefitolimod is currently being tested in four clinical trials. Of these, three are for the treatment of cancer patients: IMPALA, IMPULSE and a combination trial. The other is the TEACH study to treat patients with HIV.

PHASE III PIVOTAL STUDY FOR COLORECTAL CANCER (IMPALA)

Patient enrollment for the IMPALA study started in September 2014 and continued successfully in fiscal year 2016.

The IMPALA study is an international phase III multicentric, randomized, open-label, two-arm clinical trial. Based on the findings of the sub-group analysis of the IMPACT study (phase II) completed in 2013, the IMPALA study includes specific patients with metastatic colorectal cancer: They must display a radiologically confirmed response to treatment following standard first-line induction chemotherapy in combination with or without biological agents (biologics).

The aim of the study is to show that a switch maintenance therapy (maintenance therapy in which the drugs used are switched alternately) with the immunotherapy lefitolimod leads to a prolongation of overall survival in patients with metastatic colorectal cancer. The primary endpoint is therefore overall survival (OS). The secondary endpoints include progression-free survival, tolerability, safety and quality of life (QoL).
Around 540 patients from approximately 120 centers in eight European countries, including the five largest European pharmaceutical markets, will participate in the study. Contrary to our assessment last year, the intention is to now complete patient recruitment in the first few months of 2017.

Owing to weaker enrollment months in summer 2016, it was not possible to complete patient recruitment in the second half of the year as planned. The study will be evaluated once a certain number of deaths (events) have occurred, which is currently estimated to be reached around two years after completion of patient enrollment.

The coordinating investigator is Prof. David Cunningham, MD, Department of Medicine and Director of Clinical Research, Royal Marsden Hospital in London, UK. He is an internationally renowned expert in the area of malignant gastrointestinal tract tumors. The study also involves successful collaborations with three renowned national study groups: the Arbeitsgemeinschaft Internistische Onkologie (AIO) in Germany, the Grupo Español de Tratamiento de Tumores Digestivos (TTD) in Spain and the Groupe Coopérateur Multidisciplinaire en Oncologie (GERCOR) in France.

In January 2016, MOLOGEN presented data on lefitolimod at the 2016 Gastrointestinal Cancers Symposium (ASCO GI) in San Francisco, USA. This presentation included the design of the IMPALA study as well as preliminary demographic data and stratification factors for the first 200 randomized colorectal cancer patients from the study.

In the course of a scientific consultation in January 2016, the Committee of Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA) confirmed the development strategy of lefitolimod with the pivotal IMPALA study.

Within the scope of an official routine test by the competent regional authorities, comprehensive conformance checks (GCP inspection) in relation to the phase III IMPALA study were carried out in the second half of 2016. As of the end of the reporting period, the official written conclusive report from the authorities had not yet been provided.

Final discussions have nevertheless taken place which indicated that proper execution and implementation of the IMPALA study (GCP compliance) can be expected.

**LUNG CANCER STUDY (IMPULSE)**

The enrollment of patients for the IMPULSE study which started in March 2014 was successfully concluded in October 2015 with the enrollment of the 100th patient in accordance with study protocol. The IMPULSE study is exploratory and serves to investigate overall survival as the primary endpoint in connection with a number of sub-group analyses and secondary endpoints. On account of the critical indication and the severity of the disease, the aim of this phase II trial is to ascertain whether patient groups that might benefit from this treatment can be identified. The trial will compare lefitolimod against the best standard of care. The study enrolled patients who are suffering from an extensive disease stage of small cell lung cancer (SCLC) and whose tumors have responded to the standard first-line therapy with chemotherapeutics. Activities for the analysis of the one year survival rate in the phase II IMPULSE study in the indication SCLC started towards the end of the last financial year. Results are expected to be available in the first half of 2017 and will be presented in detail at a scientific conference.

The principal investigator is Prof. Dr. med. Michael Thomas, Senior Consultant of the Department of Oncology and Internal Medicine at the Thorax Clinic at Heidelberg University Hospital. In Germany, the study will be conducted in collaboration with the Aktion Bronchialkarzinom e.V. (ABC Group), which is a renowned oncology study group comprising lung cancer specialists.

**HIV STUDY (TEACH)**

MOLOGEN started the collaboration with Aarhus University Hospital to conduct an early stage phase I/II trial with lefitolimod to treat patients with HIV in 2015. This is the first time that lefitolimod is being evaluated in patients with a disease other than cancer. Positive results could help significantly expand the application spectrum of lefitolimod.

The aim of the TEACH study is to ascertain whether lefitolimod can activate the immune system in HIV patients so as to help deplete HIV reservoirs in HIV-positive patients in the course of a “kick and kill” therapy approach (cf. sub-section “New pipeline: focus on TLR9 product family” in Chapter 1 of this Annual Report). Aarhus University Hospital is conducting the trial in two hospital centers in Denmark and has already received grants from the American Foundation for AIDS Research (amfAR) for this purpose. MOLOGEN will provide the drug lefitolimod.

TEACH (Toll-like receptor 9 enhancement of antiviral immunity in chronic HIV infection) is a non-randomized interventional phase I/II trial of lefitolimod in HIV patients. The primary endpoint of the first phase of this study is the change in proportions of activated natural killer cells in the patients. Secondary study endpoints include the collection of virological, immunological, pharmacodynamic results as well as safety data.
In June 2016, patient enrollment started for the continuation of the study in an extension phase. The decision for this extension is based on the broad immune system activation induced by the drug in patients during antiretroviral therapy (ART) as demonstrated by the pronounced increase in various immune markers, such as natural killer cells (NK) and T cells, for example.

Should the next development phases reveal that lefitolimod does in fact contribute to a long-term reduction in the HIV reservoir in infected patients via the “kick and kill” concept, this therapy approach could lead to an eradication of the virus in the long term. In the first study stage, patients received treatment for a period of one month. The study protocol for the second phase will involve longer treatment with lefitolimod over a period of six months for 10 to 15 patients. Study results are expected to be delivered in the mid-2017.

In March 2016, the results from the first part of the study were presented in the Keystone HIV Symposium hosted by Keystone Symposia on Molecular and Cellular Biology in Olympic Valley, USA.

Lefitolimod will be investigated in a further clinical trial in combination with innovative virus-neutralizing antibodies in HIV-positive patients during ART. In January 2017, MOLOGEN’s partner, the Danish Aarhus University Hospital, received a grant of US$ 2.75 million for a trial of this kind from the biopharmaceutical company Gilead Sciences, Inc., Foster City, USA.

**COMBINATION STUDY LEFITOLIMOD WITH CHECKPOINT INHIBITOR YERVYOY® IN COLLABORATION WITH THE MD ANDERSON CANCER CENTER**

In January 2016, MOLOGEN concluded a cooperation agreement with the MD Anderson Cancer Center (MD Anderson), Texas, USA, to carry out a combination study. The collaboration comprises a phase I trial with lefitolimod in combination with the commercially available immunotherapy Yervoy® (ipilimumab) in patients with advanced solid tumors. This is the first time that lefitolimod will be evaluated in combination with a checkpoint inhibitor.

If lefitolimod enhances the efficacy of checkpoint inhibitors and/or favorably influences the known side effects profile, this could expand the potential range of applications of lefitolimod. The cooperation was initiated on account of the complementary mechanisms of action of the two immunotherapies, which in combination could achieve a broader activation of the immune system and generate synergy effects. In June 2016, the MD Anderson Cancer Center accepted its first patient for the combination study.

The aim of the study entitled “A Phase I Trial of Ipilimumab (Immuno-therapy) and MGN1703 (TLR Agonist) in Patients with Advanced Solid Malignancies” is to initially find the maximum tolerated dose (MTD) of lefitolimod that can be given in combination with Yervoy® (ipilimumab) to patients with advanced solid tumors.

The safety of this drug combination will also be studied. Furthermore, this trial aims to evaluate the efficacy of the combination of these two therapies in a study extension. The combination of an immune surveillance reactivator (ISR) with a checkpoint inhibitor is of particular interest: lefitolimod is a TLR9 agonist that can trigger the body’s own mechanisms to fight cancer on a targeted basis by reactivating immune surveillance. Yervoy®, manufactured by Bristol-Myers Squibb Co., is a recombinant, human monoclonal antibody and checkpoint inhibitor which targets a different part of the immune system. It is already approved to treat patients with unresectable or metastatic melanoma, among other diseases. It is assumed that the efficacy of Yervoy® will be increased through the lefitolimod activation of the immune system as the two modes of action are complementary.

MD Anderson will conduct the trial at its Cancer Center in Texas, USA. MOLOGEN is providing lefitolimod and funding the study.

**FURTHER COMBINATION STUDIES: LEFITOLIMOD IN A MOUSE MODEL WITH CHECKPOINT INHIBITORS**

In January 2017, MOLOGEN presented data on further combination studies in a mouse model at the Gastrointestinal Cancers Symposium (ASCO GI) in San Francisco, USA. They investigated the combination of lefitolimod with checkpoint inhibitors, specifically anti-PD-1 and anti-PD-L1 antibodies. The data shows that a combination of lefitolimod and type anti-PD-1 and anti-PD-L1 checkpoint inhibitors in a mouse model significantly increases immunity, resulting in a substantial slowdown in tumor growth in comparison with a treatment approach consisting of individual components. In this way, survival in the animals was prolonged effectively.

**ENANDIM® – FOLLOW-UP LEFITOLIMOD MOLECULES**

EnanDIM® represents a new generation in immunoactivating TLR9 agonists and is therefore a follow-up compound to MOLOGEN TLR9 technology with a longer period of patent protection. The family of EnanDIM® molecules can trigger a broad immune activation while being well tolerated. It is our expectation that the mechanisms of action of EnanDIM® molecules should facilitate their application in a range of cancer indications, either as a monotherapy or in combination with targeted forms of treatment, such as checkpoint inhibitors, and other immunotherapeutic approaches. Moreover, following a current in-house evaluation, compounds in the EnanDIM® family could potentially also be used in the area of infectious diseases, such as HIV, for example.
In the period under review, MOLOGEN presented data on EnanDIM® technologies at various international science conferences: at the 19th Annual Meeting of the American Society of Gene and Cell Therapy (ASGCT) in Washington, USA (May 2016), and at the second international CRI-CIMT-EATI-AAACR Cancer Immunotherapy Conference in New York, USA (September 2016).

The Conference was organized by the Cancer Research Institute (CRI), the Association for Cancer Immunotherapy (CIMT), the European Academy of Tumor Immunology (EATI) and the American Association for Cancer Research (AACR).

CANCER IMMUNOTHERAPY MGN1601

The active principle of cancer immunotherapy MGN1601 for the treatment of patients with renal cancer corresponds to a therapeutic vaccination and is based on a specific cell line as a vaccine. This cell line has been genetically modified using MIDGE® technology and combined with low-dose lefitolimod as an adjuvant.

The clinical phase I/II ASET study for the treatment of renal cancer patients with MGN1601 was successfully concluded in 2013. The primary endpoints for safety and tolerability were attained. As a consequence of the promising results from this study, the development of MGN1601 can now advance to the next phase.

In line with MOLOGEN’s new Next Level strategy, the development of MGN1601 has been put on hold for the time being and may be resumed at a later date, for example following the successful out-licensing of lefitolimod and availability of the necessary financial resources.

COMPOUND CANDIDATES IN MIDGE® PLATFORM TECHNOLOGY

As part of the Next Level strategy, the decision was made to sell the MIDGE® platform technology together with all associated compounds (a spin-off is conceivable as an alternative). The MIDGE® platform technology comprises the active ingredients of MGN1404 (malignant melanoma), MGN1331 (leishmaniasis) and MGN1333 (Hepatitis B) – all are DNA vectors used to transfer specific information in the form of DNA.

COLLABORATIONS AND PARTNERSHIPS

On account of the reorientation under the Next Level strategy, MOLOGEN has now also intensified efforts to find cooperation partners with development expertise. The company’s basic research activities will be reduced. This will also affect the cooperation with the Free University of Berlin (FU Berlin) and the MOLOGEN Foundation Institute for Molecular Biology and Bioinformatics (hereinafter referred to as the Foundation), which will be discontinued over the course of 2017.

ACHIEVEMENT OF OBJECTIVES IN 2016

In the past financial year, MOLOGEN fulfilled all significant, important and forecast objectives. An analysis, review and prioritization of the pipeline was completed. This provided a basis for developing the new Next Level strategy, the implementation of which also started in 2016.

For the lead product, the immunotherapy lefitolimod, MOLOGEN also achieved all relevant targets with regard to the continuation of the clinical trials. Significant progress was again made in patient recruitment for the IMPALA pivotal study in the indication colorectal cancer. The analysis of data from the IMPULSE study commenced as scheduled at the end of 2016. As part of the TEACH study, preparations for the extension phase began. In addition, the first combination study of lefitolimod with Yervoy® started in collaboration with the MD Anderson Cancer Center, USA. Potential further combination studies were also evaluated and carried out in mouse models.

Out-licensing activities for lefitolimod continued with various partners in the pharmaceutical industry during the last financial year. MOLOGEN has also commissioned a consulting company specializing in the commercialization of biotechnology products to support and progress the out-licensing on an even more targeted basis.

As expected, overall expenses for R&D were once again high on account of the scale of the company’s development programs. Expenses in this area were slightly up on the previous year and essentially caused the loss for the year of €21.0 million. Overall, as predicted, the annual result was once more negative in comparison with the previous financial year. This had been expected and charts the progress of development.

The planned year-on-year increase in average monthly cash consumption in 2016 took effect. This was primarily due to planned working capital changes.

The necessary additional financial resources required for the scheduled implementation of R&D programs in 2017 were raised through the cash capital increase in October 2016 and the subsequent issuance of convertible bonds.

In contrast to forecasts, the number of employees declined slightly in fiscal year 2016. This was attributable to the implementation of the Next Level strategy, which had been agreed in the first half of the year.

Furthermore, discussions were held as planned in 2016 on the new appointment to the Executive Board of a member responsible for research and development, as Chief Medical Officer (CMO). By the end of the year, discussions had progressed to the point where the position could be filled at start of 2017.
FINANCIAL PERFORMANCE AND FINANCIAL POSITION

I R&D EXPENSES OF € 17.0 MILLION (2015: € 16.8 MILLION)
I EBIT OF € –21.0 MILLION (2015: € –20.5 MILLION)
I AVERAGE MONTHLY CASH CONSUMPTION OF € 1.7 MILLION (2015: € 1.4 MILLION PER MONTH)
I CASH AND CASH EQUIVALENTS OF € 20.5 MILLION (2015: € 24.6 MILLION)

Overall, the company's financial performance and financial position developed according to plan. In conjunction with the incoming payments from the new convertible bond II issued at the start of 2017, the cash and cash equivalents available on the reporting date cover the short-term financial needs of the company.

RESULTS OF OPERATIONS

In fiscal year 2016, the revenues of MOLOGEN totaled € 0.08 million and were therefore up on the prior year, but remained at a low level overall (2015: € 0.04 million). They result from the sale of goods and services in the area of research.

At € 0.04 million, other operating income was slightly up year on year, but remained at a low level overall (2015: € 0.01 million).

The cost of materials in the amount of € 11.8 million was higher than in the previous year (2015: € 11.7 million) and primarily incurred in connection with carrying out clinical trials. In particular, this included costs for external services of € 11.7 million (2015: € 9.9 million). The figures for the previous year were adjusted in line with IAS 1.45 in conjunction with IAS 8.14 ff. This adjustment is explained in the IFRS Notes under Section B.

Other operating expenses decreased to € 3.5 million (2015: € 3.7 million). The figures for the previous year were adjusted in line with IAS 1.45 in conjunction with IAS 8.14 ff. This adjustment is also explained in the IFRS Notes under Section B. The decline in other operating expenses is attributable to lower expenses in relation to employee benefit costs, travel costs and remaining other expenses. However, expenses were up for legal and consulting costs in addition to costs related to business development.

At € 5.5 million, personnel expenses were up on the previous year (2015: € 5.1 million). Expenses for wages and salaries increased compared with the previous year due to the recruitment of additional staff in clinical development in the second half of 2015 and non-recurring expenses incurred owing to staff reductions in the course of the reorganization. These expenses were offset by lower expenditure relating to the granting of employee stock options.

Overall, scheduled (€ 0.1 million) and unscheduled (€ 0.3 million) depreciation and amortization of assets was up on to the previous year (2015: € 0.1 million scheduled depreciation and amortization). On account of the Next Level strategy change that was announced in the first half year of 2016 and the associated reorganization, property, plant and equipment no longer required and intangible assets were written off on an unscheduled basis.

Despite the high average balance of cash and cash equivalents, at € 0.02 million, finance income is down on the previous year because of low interest rates and interest expenses from the issuance of a convertible bond (2015: € 0.003 million).

Of the total expenses, € 17.0 million was used for R&D projects (2015: € 16.8 million). These expenses were primarily incurred in connection with the carrying out of IMPALA and IMPULSE clinical trials.


NET ASSETS AND FINANCIAL POSITION

The financial management of MOLOGEN is designed to provide sufficient funding to enable the implementation of the business strategy. The necessary R&D as well as other activities and investments are principally funded by shareholders’ equity generated through the issue of new shares. Until the company is able to generate sufficient revenues, the future financing of R&D programs as well as other activities and investments will continue to be predominantly carried out in this way. In parallel, the feasibility of raising outside capital is regularly examined as an alternative source of funding. In fiscal year 2016, a non-current liability was created with the issuance of a convertible bond.

On October 25, 2016, a capital increase against cash contributions was recorded in the Commercial Register relevant to the company. From the authorized capital, a total of 11,315,750 shares were placed with existing shareholders at a price of € 1.20 per new share by way of indirect subscription rights and with qualified investors as part of an international private placement. Gross proceeds from the issue totaled around € 13.6 million. MOLOGEN’s share capital increased to € 33,947,251, up by € 11,315,750 from a previous level of € 22,631,501. The new shares carry full dividend rights from January 1, 2016. With resolutions on September 23, 2016 and November 22, 2016, the Executive Board of MOLOGEN decided, with the approval of the Supervisory Board, to issue a convertible bond pursuant to the resolution of the Annual
General Meeting of MOLOGEN on August 13, 2014 (conditional capital 2014-1). In fiscal year 2016, 254 bonds of €10,000 each were issued as part of the convertible bond (WSV 2016/24), with a total nominal value of €2.54 million.

In relation to WSV 2016/24, a corresponding transfer agreement was concluded with Global Derivative Trading GmbH (bond holder) on November 22, 2016. It has a maturity of eight years. On the final maturity date, October 29, 2024, the convertible bond will be repaid at its nominal value plus any accrued but unpaid interest on the nominal value up to (but not including) the final repayment date, provided that the respective convertible bond has not been prematurely repaid, converted, redeemed or devalued. An interest rate of 6% per annum will be paid on the nominal value of the convertible bond from (and including) November 25, 2016. Interest is due for payment on a quarterly basis.

The funds raised through the capital increase and the issuance of a convertible bond will finance the company’s R&D programs, especially in relation to the IMPALA and IMPULSE clinical trials, and ongoing business operations needed for this purpose.

Total assets decreased to €21.4 million (12/31/2015: €26.4 million).

As of December 31, 2016, assets accounted for a very high share of cash and cash equivalents amounting to €20.5 million (12/31/2015: €24.6 million)

In the past financial year, MOLOGEN was always in a position to comply with all its financial obligations.

The volume of the investments made in fiscal year 2016 was less than the total of scheduled and unscheduled depreciation and amortization. On account of unscheduled depreciation and amortization, non-current assets amounted to €0.1 million as of December 31, 2016, and were therefore down on the prior year’s reporting date (12/31/2015: €0.4 million).

Equity and liabilities are strongly influenced by the reported shareholders’ equity in the amount of €11.8 million (12/31/2015: €19.5 million). The equity ratio dropped on the previous year, to 55% (12/31/2015: 74%). This decline is essentially attributable to shareholders’ equity being lower on account of the increased accumulated deficit. Through the issuance of new shares as part of capital increase, share capital rose from €22.6 million to €33.9 million, while capital reserves were up €2.3 million. The issuance of a convertible bond boosted capital reserves by €0.4 million. In addition, costs of capital procurement of €0.9 million were netted against capital reserves as well as personnel expenses due to the granted share options of €0.2 million being recognized.

At €2.1 million, non-current liabilities as of December 31, 2016 were above the figure on the previous year’s reporting date (12/31/2015: €0.01 million). This is owing to the liabilities associated with the convertible bond issued in fiscal year 2016.

At €7.4 million, current liabilities as of December 31, 2016 were above the figure on the previous year’s reporting date (12/31/2015: €6.9 million). This increase was attributable to trade payables, especially in relation to clinical trials (due to invoicing practices of service providers).

Other financial liabilities amounted to €17.4 million in total as of December 31, 2016 (12/31/2015: €21.7 million). These obligations were essentially owing to the conclusion of short-term service contracts for the IMPALA and IMPULSE clinical trials that commenced in fiscal year 2014. The calculation of other financial liabilities was based on the assumed scheduled development of the company’s business activities.

<table>
<thead>
<tr>
<th>Cash and cash equivalents as of December 31 in € million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
</tr>
<tr>
<td>2015</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Equity ratio as of December 31 in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
</tr>
<tr>
<td>2015</td>
</tr>
</tbody>
</table>

LIQUIDITY DEVELOPMENT

Cash flows from operating activities in the amount of €–19.3 million were up on the previous year’s value (2015: €15.1 million) and were mostly committed to research and development.

At €–0.05 million, cash flows from investing activities were on a similar level to the previous year (2015: €–0.1 million).

At €15.2 million, cash flows from financing activities were considerably lower than in the same period of the prior year and were influenced by the fund inflows from the cash capital increase carried out in October 2016 and the issuance of a convertible bond in November 2016.

Cash consumption (taking into account incoming payments from revenues and costs of capital procurement) amounted to an average of €1.7 million per month and therefore exceeded the value of €1.4 million in the same period of the prior year.
The annual financial statements of MOLOGEN are prepared according to the regulations of the German Commercial Code (HGB). Due to different regulations on accounting, differences arise in individual items for the annual financial statements as of December 31, 2016 in accordance with the HGB in comparison with the individual annual financial statements pursuant to Section 325 Para. 2a of the HGB as applicable under the terms of the International Financial Reporting Standards (IFRS) adopted by the EU.

The main reasons for this are:

I According to provisions of IFRS as adopted by the EU, the allocated fair value of granted employee stock options should be considered when ascertaining personnel expenses and capital reserves.

I In individual annual financial statements according to IFRS as adopted by the EU, deviating service life is to some extent used for fixed assets. This results in a different depreciation and amortization.

I Costs directly attributable to the issuance of new shares, the equity component of the convertible bond or employee stock options are recorded in shareholders’ equity as a deduction from the issue proceeds.

The result of operating activities in accordance with the HGB therefore differs from the annual result in accordance with IFRS as adopted by the EU. The result of operating activities amounts to €–21.7 million in accordance with the HGB for fiscal year 2016 (2015: €–22.1 million). Deviations in the HGB annual financial statements in comparison with the IFRS individual annual financial statements mainly arise in personnel expenses, other operating expenses, depreciation and amortization as well as other operating income. Personnel expenses in accordance with the HGB do not include expenses from issuing share options to the Executive Board and company employees, and are consequently €0.2 million lower (2015: €0.5 million).

However, in comparison with the IFRS individual annual financial statements, costs in connection with capital procurement were recorded as expenditure in personnel expenses and other operating expenses of a total of €0.9 million (2015: €2.1 million).

In addition, other operating income in accordance with the HGB totals €0.08 million and therefore deviates from that in the IFRS individual annual financial statements of €0.04 million. This results from possible or necessary balancing with corresponding expenses in accordance with international accounting rules.

As in the prior year under review, the different service life of fixed assets only resulted in minor differences in the respective depreciation and amortization of both sets of annual financial statements in 2016.

As in the IFRS individual annual financial statements, the expenses for R&D recorded in the annual financial statements were €16.9 million and therefore exceeded the prior year’s value (2015: €16.5 million).

The shareholders’ equity of the annual financial statements in accordance with the HGB also matches the level of the IFRS individual annual financial statements. The discriminative handling of granted share options and different consideration of costs of capital procurement of the accounting guidelines in accordance with IFRS, as adopted by the EU and in accordance with the HGB, compensate one another in shareholders’ equity. The balance sheet total of the annual financial statements differs from that in the IFRS individual annual financial statements because of a discrepancy in the disclosure of liabilities related to the convertible bond. In the annual financial statements, the convertible bond liability is recognized at the repayment amount of €2.5 million, while the interest rate advantage of €0.4 million is posted in capitalized deferred income. In the IFRS individual annual financial statements, the corresponding sum is netted on the liabilities side.

With regard to the further analysis of the annual financial statements, reference is made to the explanations under paragraph “Financial performance and financial position” (analysis of IFRS individual annual financial statements) of this management report, which also essentially apply to the annual financial statements.
FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

FINANCIAL PERFORMANCE INDICATORS

The focus of activities is the research and development of proprietary technologies and product candidates with the aim to license them to partners from the pharmaceutical industry. It is therefore essential to ensure sufficient liquidity in order to carry out the R&D programs to the planned scope and timeframe and be able to support the licensing activities with the generated data.

Given that MOLOGEN does not yet have access to significant regular revenues from license agreements, the volume of cash and cash equivalents is the key financial performance indicator. Cash and cash equivalents amounted to €20.5 million as of December 31, 2016 (12/31/2015: €24.6 million).

NON-FINANCIAL PERFORMANCE INDICATORS

In addition to the financial performance indicators, the non-financial performance indicators are relevant in the success of MOLOGEN.

One of the key non-financial performance indicators is the composition and the development status of the MOLOGEN product pipeline. In the reporting period, important progress was made in this area and the targets for 2016 were achieved: Further progress was made in the patient recruitment for the IMPALA study (phase III pivotal study in colorectal cancer) and is expected to be concluded in the first few months of 2017. The first planned analysis of data from the IMPULSE study commenced as scheduled at the end of 2016.

Positive initial results for the TEACH study (phase I/II in HIV) were followed by the start of an extension phase, with prolonged treatment for patients. At the start of 2016, MOLOGEN also concluded a cooperation agreement with the MD Anderson Cancer Center to carry out a combination study in solid tumors (with ipilimumab and lefitolimod). Patient enrollment commenced in July 2016.

In addition, convincing data was generated through animal testing using a combination of various immunotherapeutics (anti-PD1/anti-PD-L1). This data reveals that the combination of lefitolimod with what are known as checkpoint inhibitors significantly improves the efficacy of the immune system in combating tumors as against the immunostimulatory effect of the individual components. Consequently, survival in a mouse model can be prolonged. TLR9 agonists therefore delivered key additional insights for the future development of the pipeline, reinforcing the competitive profile and expanding commercialization potential.

Furthermore, MOLOGEN’s employees are also very important non-financial performance indicators. Qualified employees are essential for the targeted and successful further development of innovative product candidates. The number of employees in the area of clinical development has fallen slightly year on year owing to the implementation of the Next Level strategy: an average of 45 employees worked in the development department (2015: 49 employees). As of December 31, 2016, MOLOGEN had a total of 59 employees (12/31/2015: 66 employees), including the Executive Board, temporary staff and staff on parental leave. The decline in staff as of the reporting date is due to the implementation of the Next Level strategy. At 10.14%, staff turnover remained at an extremely low level (excluding the Next Level strategy), as in the previous year (9.86%). Calculations were generated using the Schlüter method.

<table>
<thead>
<tr>
<th>Number of employees as of December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
</tr>
<tr>
<td>59</td>
</tr>
<tr>
<td>2015</td>
</tr>
<tr>
<td>66</td>
</tr>
</tbody>
</table>

The patent portfolio of MOLOGEN is also a key non-financial performance indicator. The protection of proprietary platform technologies and drug candidates as well as of proprietary expertise is extremely important for the ongoing product and market strategy of MOLOGEN. The successful commercialization of proprietary drug candidates will essentially depend on the quality of underlying patent and market protection. MOLOGEN is therefore making efforts to safeguard new technologies, products and processes internationally and to further expand its patent portfolio.

The patent portfolio as of December 31, 2016, is divided into 24 patent families and includes 265 individual patents which have been granted or are intended for issue as well as more than 70 patent applications. In the course of the Next Level strategy, the current estimate is that 5 patent families with 42 granted patents and 11 patent applications will no longer be retained.

The MGN1601 project was additionally granted orphan drug status, which includes further market exclusivity independently of patent protection.

<table>
<thead>
<tr>
<th>Number of patents issued or intended for issue of December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
</tr>
<tr>
<td>265</td>
</tr>
<tr>
<td>2015</td>
</tr>
<tr>
<td>248</td>
</tr>
</tbody>
</table>
OVERALL STATEMENT ON BUSINESS PERFORMANCE AND THE POSITION OF MOLOGEN

MOLOGEN made significant progress in fiscal year 2016. This was reflected in the strategic Next Level reorientation, the further development of the product pipeline and the specification of the commercialization strategy. The implementation of the new strategic direction and focus on lefitolimod and the EnanDIM® family as well as the associated studies are all progressing well. In particular, important milestones were reached in the past financial year for the two clinical trials with product candidate lefitolimod, IMPALA for colorectal cancer and IMPULSE for lung cancer. The expansion of the TEACH study for the indication of HIV, the combination study of lefitolimod with Yervoy® (ipilimumab) and new data from other immunotherapy combination studies in a mouse model confirm our expectations for lefitolimod. Advancements were also made in the preclinical development of the pipeline, which offers further potential with the EnanDIM® family, the follow-up molecules of lefitolimod. The intention is to qualify these substances for clinical application.

In 2016, all key objectives in the area of R&D as well as in determining and implementing the Next Level strategy were achieved. As well as shifting the focus of the company from R&D to product and market orientation, the possibility to commercialize and out-license lefitolimod in the near future has been generated. The funding of the company was secure at all times in the past financial year owing to available cash and cash equivalents in combination with the capital measures that were carried out. On the whole, a positive view can therefore be taken of the business performance and position of the company in fiscal year 2016.

FORECAST, OPPORTUNITIES AND RISK REPORT

FORECAST REPORT

The company’s strategy is generally aligned to achieve appealing returns in the medium and long term through the development and market preparation of its innovative product pipeline. MOLOGEN will therefore continue to pursue the near-to-market projects in fiscal year 2017 and commit a significant proportion of the available resources to this objective.

RESEARCH AND DEVELOPMENT (R&D)

In its R&D activities, MOLOGEN plans to continue the clinical trials for the product candidate lefitolimod. Patient recruitment for the IMPALA colorectal cancer study should be completed in the first few months of 2017, while for the exploratory IMPULSE lung cancer study, the aim is to present the findings of analysis conducted on one-year survival rates in the first half of 2017. The TEACH study in the indication of HIV will also deliver results in 2017, which are expected in the middle of the year. Patient recruitment is continuing for the immunotherapy combination study with lefitolimod and ipilimumab. Preclinical development of the lefitolimod follow-up candidates is to be continued in preparation for the start of clinical testing.

The product candidate MGN1601 has met the requirements to qualify for further clinical trials in the indication of renal cancer. In the event that sufficient funding is forthcoming, potential licensing or partnerships with lefitolimod mean that this is still a potential candidate for future clinical product development.

R&D COLLABORATIONS AND PARTNERSHIPS

In the area of R&D, MOLOGEN continues to seek cooperations and partnerships for proprietary product candidates. These can be with partners in the pharmaceutical and biotechnology industries or from an academic background. The cooperations with the FU Berlin and the Foundation are ending on March 31, 2017. These focused on basic research that will no longer be carried out in-house in the course of implementing the Next Level strategy. Various ongoing activities will be pursued over the course of fiscal year 2017 as well.

PREPARATION FOR MARKET AND COMMERCIALIZATION

Under the new Next Level strategy, the company’s commercialization strategy is to out-license or find a partner for all activities relating to the lead product, lefitolimod, and these clinical trials. To this end, progress was made in all preliminary work for market preparation, such as regulatory work, upscaling production according to market benchmarks and outsourcing it to a contract manufacturer. The current activities and discussions with market players will be further intensified and advanced. The aim is to further materialize the market potential of lefitolimod.
In view of this, the company assumes two possible scenarios for 2017. If license and partnership discussions are not successful, the financial result and EBIT could again be negative (higher net loss for the period/EBIT more negative than last financial year) and would consequently lead to an increase in the accumulated deficit. As a result, share capital would be fully used up in 2017, leading to negative equity. If the current talks result in a contract with potential partners, there is the possibility that a profit will be achieved for the year through prepayments and/or milestone payments. This would also be directly reflected in a significant improvement of available liquidity.

Owing to the successful placement of a second convertible bond of over €4.99 million in January 2017 and the holdings of cash and cash equivalents as of December 31, 2016, the Executive Board is assuming as of the reporting date that the necessary financial resources are available to implement targets as planned in 2017. Furthermore, the Executive Board assumes as of the reporting date that the liquidity required for the planned implementation of R&D programs, especially beyond the start of 2018, will be raised in fiscal year 2017 by implementing cash capital increases and/or cash inflows from a strategic partnership.

The risk report provides further details on financial risks and other risks.

A dividend distribution to shareholders is currently not possible due to the accumulated deficit as of December 31, 2016. The company also does not expect to pay a dividend for the foreseeable future. According to standard practice in the biotechnology industry, future profits from business activities should be reinvested mainly in the development of the company, so that the value of the product portfolio and consequently the company as a whole continues to increase.

PERSONNEL

To achieve the above objectives and to advance the scheduled development of the company, the number of employees will continue to rise, especially in the area of clinical development. However, this increase will be offset by the reduction in employees that will take place at the start of 2017 as part of the strategy change adopted in 2016. The majority of the staff reduction already took place in 2016 in the course of Next Level strategy implementation.

For this reason, the company is only projecting a slight fluctuation over the course of the year in 2017. Excluding Next Level strategy effects, staff turnover in 2017 is not expected to exceed the level of 2016.

The discussions that continued to take place last financial year on replacing the Executive Board member for clinical development who left effective March 31, 2016, were successfully completed in January 2017. The new Executive Board member for research and development/Chief Medical Officer (CMO) will start in the role on May 1, 2017.

OVERALL STATEMENT ON FUTURE DEVELOPMENT

The successful further development of the product pipeline, the specification and start of implementation of the Next Level Group strategy in fiscal year 2016 and the available financial means provide the foundation for the continued positive development of MOLOGEN. The progress planned for 2017 in preclinical and clinical development programs as well as commercialization should all further increase the value of the product pipeline and the company.

The financial prerequisites for the scheduled development of the company in 2017 have been provided for through the capital increase in 2016 and the two subsequent convertible bond placements. MOLOGEN therefore enters the new financial year with good prospects. The scheduled further development of the company beyond the start of 2018 is contingent on the capital increase from authorized capital that is to be approved and implemented in 2017 and/or on the successful conclusion of licensing and partnership discussions.

RISK REPORT

RISK MANAGEMENT SYSTEM AND INTERNAL CONTROL SYSTEM

MOLOGEN is a company that conducts research and development into innovative product candidates using mostly self-developed technologies. Every corporate action is based on finding the right balance between opportunities and risks.

The company’s success and the achievement of corporate objectives are considerably influenced by management and by the spread of risk.

A risk management system and an internal control system (ICS) have been established at MOLOGEN for this purpose. The Executive Board takes responsibility for defining the scope and direction of the established systems based on company-specific requirements.

The rapidly changing conditions in the pharmaceutical markets due to the development of technological and health-related policies, the use of new technologies as well as the complexity of business processes and the business model lead to complex control systems. This requires risk management to be a continuous process of strategic management. The basis for this risk management process is defining what risks should be determined and managed in due time.

The identified risks are evaluated. Countermeasures are defined and responsibilities assigned in order to control and mitigate the calculated risk potential. As a portion of the risks lies beyond the Executive Board’s sphere of influence, adequate and functional systems cannot provide absolute guarantees for the identification and management of risks.
In this respect, developments may arise in reality which deviate from those risks anticipated by the company.

The MOLOGEN risk management system is continuously adapted to new requirements. The system allows the effects of adverse developments caused by a lack or failure of processes, people, systems or hazards caused by external events to be identified at an early stage.

A detailed scientific and financial controlling system, organizational security measures and clearly regulated work processes can ensure planning, control and coordination even of complex project activities commensurate with the risk situation. In addition, the progress of projects is monitored and documented periodically, with the respective cooperation partners, if necessary.

The risk management system is inspected by the MOLOGEN ICS. Inspections within the scope of the ICS are also carried out directly by the Executive Board.

The primary focus of the risk management system has always been and remains the monitoring of the company’s liquidity situation and its equity. Future revenues are difficult to predict because revenues have so far mainly been attributable to one-off effects. The exact monitoring of the risks relating to the development of liquidity and equity is therefore of great importance for the continued existence of the company.

Underlying objectives of the risk management system in the area of accounting processes are mainly the identification and assessment of risks which could conflict with the aim of regulation conformity of the financial statements, the restriction and review of recognized risks with regard to their impact on the financial statements and the corresponding presentation of these risks. The objective of the ICS of the accounting process is to ensure adequate security through the implementation of controls so that regulation-compliant financial statements can be prepared, despite identified risks.

To achieve these objectives, key risks are identified, documented and monitored. Binding instructions and checklists, which accommodate the identified risks, regulate the essential workflows that will be developed further if required. In turn, the binding instructions and checklists are regularly assessed by the ICS. This includes the verification of compliance with accounting regulations, the status of cash and cash equivalents as well as the regularity of business operations by means of regular and random inspections.

In particular, the following points are verified: incoming and outgoing invoices, bank statements and bank balances, all incoming payments, outgoing payments, payrolls, reports to the Supervisory Board, quarterly reports and contracts. The second important element of the ICS is the dual control principle, which is documented primarily through the signing powers for payments and the absence of exclusive representative authority of the Executive Board.

In regard to the use of financial instruments (receivables, cash and cash equivalents and liabilities), MOLOGEN is currently exposed to market price, default, liquidity and interest rate fluctuation risks to only a very limited extent. On account of current interest rate levels, MOLOGEN is exposed to the risk of earning negative interest.

As planned, the service contracts on which other financial obligations are based were essentially concluded in euro. Consequently, the resulting currency exchange rate fluctuation risk is only low.

The functioning of the internal control and risk management system with regard to the financial reporting process is checked regularly internally, mainly by the Executive Board, as well as externally by the auditor in the context of the annual audit.

At MOLOGEN, risk management is subject to continuous further development. Management and employees are thereby enabled to recognize new challenges at an early stage and to adapt to them accordingly.

**RISKS OF THE COMPANY**

The extraordinary revenue prospects of the MOLOGEN business model are set against a number of risks, including technological, financial, regulatory and patent-law risks as well as risks connected with the company’s business activities. The individual risks are partly related and could have either a positive or a negative influence on each other.

**Drug development and regulatory risks**

As a biotechnology company, MOLOGEN is above all exposed to common industry risks. The research and development of new drugs involves the risk that a new drug development lacks the desired product characteristics, especially in the areas of efficacy and tolerability, or that these characteristics cannot be adequately proven or that published clinical data is incorrectly interpreted. At MOLOGEN, unpredictable problems may particularly occur during the current preclinical and clinical development of drug candidates.
In the area of clinical trials, there continues to be a general risk of not being able to enroll a sufficient number of suitable patients and/or test subjects within the planned timeframe.

If preclinical tests or clinical trials fail to show the expected results or show unacceptable toxicity, this could delay the further development of the relevant drug candidate, increase costs or even result in the discontinuation of further development. This could have negative effects on the financial performance and financial position of the company.

The regulatory environment for drug development also involves industry-specific risks. MOLOGEN is dependent on official authorizations to conduct clinical trials, for the use of genetic engineering techniques, the manufacture of investigational medicinal products and to operate special facilities for performing research or manufacturing active substances and investigational medicinal products.

Delay, loss, expiration or refusal to grant such approvals and negative evaluation results could extend the development of drug candidates, increase costs or lead to their discontinuation. This could have negative effects on the company’s situation.

Even after the successful completion of clinical trial phases, it is possible that regulatory market approvals for current or future drug candidates will not be granted, potentially at all or with considerable restrictions or only with a time lag and also that approval may be revoked.

**COMPETITION AND BUSINESS MODEL RISKS**

In order to be able to fully develop revenue potential, MOLOGEN is not only dependent on the successful research and development of proprietary technologies and product candidates, but also on the development of the market for these product candidates. In relation to this, it cannot be excluded that historical R&D expenses will not be equalized by future revenues.

MOLOGEN has focused on the research and development of new cancer therapies, for which there is a very high demand. The number of cancer incidences increases further each year, as does the number of cancer-related deaths. The market for efficacious cancer drugs is therefore steadily growing. However, the future development of the market depends on various factors, including the cost pressure of health care systems, potential new regulations in the health market and the pharmaceutical law. Certain developments could therefore have negative consequences for the market potential of MOLOGEN drug candidates and negative effects on the financial performance and financial position of the company.

The UK’s announcement of its intention to withdraw from the European Union (Brexit) scheduled for 2018/2019 entails as yet unknown risks for the European approval procedures for drugs as well as on market entry conditions for one of the five major European pharmaceutical markets. As current plans envisage an application for approval of lefitolimod in Europe at some point after Brexit, negative effects (e.g. approval delays, increased costs for specific approval procedures) cannot be ruled out at this stage given the important of the UK market in terms of product sales development. Such developments will be prudently monitored by MOLOGEN and, where necessary, taken account of in planning.

The business model of MOLOGEN essentially provides for proprietary product candidate development up to a certain stage, with the subsequent selling of licenses for the drug candidates to one or several partners from the pharmaceutical industry. The number of such potential licensees is limited and relatively manageable in the field of major pharmaceutical companies.

A further consolidation in the industry, as has been observed in recent years, could lead to a further reduction in the number of potential licensees.

Successful out-licensing of drug candidates depends on a variety of different factors. Above all, the potential of drug candidates in comparison with the competition is crucial. Should competitors develop clearly superior drugs and/or market approval be gained more quickly, this could have a negative effect on the prospects of success for the lucrative out-licensing of MOLOGEN product candidates.

In general, the sale of licenses for MOLOGEN technologies and drug candidates cannot be reliably predicted either in terms of time or value. Due to the complexity of licensing and the number of issues to be clarified in this regard, the timing of a contractual agreement cannot be reliably predicted either.

For example, this is contingent on the volume of resources used for such contract negotiations on the part of the potential contracting party, on the scope of the issues to be clarified with regard to patents, clinical data, preclinical data or other details, as well as other factors, over which MOLOGEN has no or only limited influence.
In addition, successful out-licensing still cannot be guaranteed even if the clinical development of the respective drug candidate proceeds positively, the desired product characteristics can be proven, patents and trademarks are classified as reliable and revenue potential exists. MOLOGEN has no influence on the positive decision of the potential contracting party required for the licensing.

Patent risks and other risks associated with the protection of intellectual property

The effective protection of the underlying (patentable or not patentable) expertise of the product candidates is an essential factor for successful out-licensing. Patent and licensing issues could prevent or delay appropriate business transactions or reduce the commercial appeal of MOLOGEN’s product candidates.

Even if patents by law demonstrate a presumption for their effectiveness, it does not necessarily follow from their granting that they are effective or that any patent claims are asserted to the required or desired extent. No guarantee can be given that patents will not be challenged, invalidated or circumvented. Infringement of MOLOGEN patents by third parties can also not be precluded. At the same time, it cannot be ruled out that MOLOGEN itself infringes patents or other industrial property rights, as its competitors also register patents for inventions and receive patent protection on a significant scale.

Should this be the case, MOLOGEN would be prevented from using the affected technologies in the relevant countries where such rights have been granted. There is also no guarantee that MOLOGEN will receive the licenses necessary for the success of its business to the required extent and on reasonable terms in future. All of this could have negative effects on the financial performance and financial position of the company.

Some of our product candidates are dependent on intellectual property which has resulted from cooperation projects with third parties.

Risks connected with business activities

In preclinical and clinical development, MOLOGEN cooperates with contract research organizations or clinical research organizations (CROs), which specialize in the planning, coordination, implementation and evaluation of clinical trials. The risks of such cooperations lie in the timely identification of suitable CROs at presentable terms for MOLOGEN and in the rendering of contractually agreed services by the CROs, especially with regard to quality and adherence to schedules.

These considerations could lead to substantial additional costs for the clinical development programs of MOLOGEN.

The company depends on external research facilities for planning and carrying out parts of our clinical development work. If we fail to find suitable external research facilities or if the external research facilities that we cooperate with do not deliver their services on time, according to the contract or provide a substandard quality, this can have a negative impact on the development of our drug candidates and delay or prevent their market launch.

In connection with the manufacture of drug candidates, there is a risk of not receiving the required volume or quality for clinical development. MOLOGEN is reliant on suppliers in this regard. The total stock of lefitolimod intended for clinical trials is currently stored with one service provider. There is a risk that any accidental or total loss would delay and increase the cost of the current clinical trials.

The present outsourcing of lefitolimod production, which was previously in-house, and the upscaling to the market standard harbor particular risks with regard to the identification of the contract manufacturer, the successful conclusion of the contract, the technology transfer and the final external production of sufficient product amounts of an acceptable quality.

The company is dependent on contract manufacturing organizations (CMOs) for the manufacture, formulation, filling, labeling and packaging of drug candidates that are used in clinical trials as well as for the future market launch and marketing.

If we do not find any suitable CMOs or the contracted CMOs do not deliver their services on time, according to the contract or provide a substandard quality and quantity, this can have a negative impact on the development of our drug candidates and delay or prevent their market launch.
MOLOGEN uses a unique cell bank for manufacturing its cell-based cancer therapy MGN1601. To minimize the risk of loss of this cell bank, MOLOGEN has deposited a sample with the German Collection of Microorganisms and Cell Cultures GmbH (Deutsche Sammlung von Mikroorganismen und Zellkulturen GmbH; DSMZ) and stored the cell bank in two different locations in Germany. Nevertheless, a total or partial loss cannot be ruled out. Depending on the scope, a partial loss could be associated with significant costs. In the event of a total loss, the drug candidate MGN1601 could no longer be manufactured and further development would have to be discontinued, whereby the previous investments would be permanently lost.

The activities of MOLOGEN in non-European countries involve country-specific risks. As far as possible, MOLOGEN will try to take appropriate measures to protect itself against these risks. These risks could have negative effects on the financial performance and financial position of the company.

**Financial risks**

Annual sales which have been achieved so far are not sufficient for the long-term funding and profitability of MOLOGEN. The company will therefore be reliant on contracts with pharmaceutical partners in the future. As long as licensing and marketing contracts do not provide sufficient revenue to cover the company’s expenses, it will remain dependent on other funding sources, such as the capital market, for example. If the intended business transactions are delayed or funding from other sources is not or is insufficiently possible, this would have negative effects on the financial performance and financial position of MOLOGEN and could pose a threat to the continued existence of the company.

Based on the current planning and Executive Board estimates, the cash and cash equivalents available to the company as of the reporting date of December 31, 2016, and inflows from the second convertible bond placed at the start of 2017 amounting to €4.99 million are not sufficient to cover the anticipated expenditure and investment in connection with the further development of the product pipeline and, in particular, for carrying out ongoing clinical trials, beyond the start of 2018. However, even in difficult conditions, the company has usually been able to raise the necessary funding in recent years. At the current time, the Executive Board is confident that additional funds can be provided in good time.

This could be achieved through capital measures, for which the necessary funding instruments (authorized and conditional capital) will be generated in the next Annual General Meeting, or through partnerships in the pharmaceutical or biotechnology sector.

If the company does not successfully raise funding at favorable conditions or even at all, it may be forced to reduce expenditure on R&D activities by postponing, limiting or discontinuing the development of one or more product candidates. In the medium term, at least, this could significantly impact the development of the company and, in the event of sustained funding difficulties in the medium term to 2018, it could also pose a potential threat for the continued existence of the company.

Given that MOLOGEN incurred losses in previous financial years due to extensive R&D expenses, these losses have meanwhile added up to a relatively high accumulated deficit, which will be offset against future profits. In addition, there is a risk that the current tax loss carryforwards could be partially or fully derecognized due to changes in the ownership structure of MOLOGEN in accordance with Section 8c of the German Corporate Income Tax Act (Körperschaftsteuergesetz; KStG).

Without successful out-licensing in 2017, further losses due to the business model of MOLOGEN may result in the total erosion of the share capital. Such a loss could negatively affect the share price of MOLOGEN.

MOLOGEN receives or has received grants in the context of various support programs for individual development projects. Due to the complex rules and regulations, as well as billing and detection methods, it could be that the grants must be repaid wholly or partially as a result of incorrect billing or other breaches of the underlying conditions. This would have a direct impact on the financial performance and financial position of the company.

On account of current interest rate levels, MOLOGEN continues to be exposed to the risk of earning negative interest.

The loss of the services of Executive Board members, other executives or employees in key functions can have a negative impact on the financial performance and financial position of MOLOGEN. This can be caused by loss of expertise, by costs for recruitment of new employees or higher salary demands of qualified candidates.
In addition, financial risks can arise from legal disputes. Depending on the outcome of such disputes, negative effects on the financial performance and financial position of MOLOGEN may arise. In the past, legal challenges from shareholders against resolutions passed at the Annual General Meeting have negatively affected the company. In this context, the costs of legal defense could massively exceed the recoverable costs. Furthermore, significant time-based delays of structural measures may occur. The legal challenges related to the Annual General Meetings in 2014 and 2015 were both completely rejected. However, future challenges of this sort cannot be ruled out. As before, financial risks could still arise from a lawsuit which the company initiated before a Saudi Arabian court in September 2009 against a former business partner in connection with a joint venture terminated in 2006. MOLOGEN demanded the repayment of deposits that had been made in the joint venture and the reimbursement of expenses. Overall, the claim of MOLOGEN against its former business partner amounted to €1.5 million. In the course of the proceedings, the defendant had asserted claims in the amount of €0.5 million, reimbursement of costs in the amount of €3 million and damages in the amount of at least €20 million.

As this document was not delivered to the counsel of MOLOGEN and MOLOGEN’s claim proceedings ended in 2010 at first instance due to lack of jurisdiction of the court, MOLOGEN is currently unable to estimate whether this alleged counterclaim actually exists and whether the former business partner will make a claim based on these potentially existing claims before another court in the future. A risk to the claim of MOLOGEN remains unclear at this time.

Overall assessment of risk position

From a current perspective, the described risks are manageable on the whole and do not endanger the continued existence of MOLOGEN up to the time of report publication.

OPPORTUNITIES FOR THE COMPANY

In particular, the drug candidates in clinical development will reach further important milestones in the short and medium-term. According to the assessment of MOLOGEN, the start of clinical trials for some product candidates, the conclusion of individual study phases and positive study results should not only result in an increase in value of the respective product candidate but also of the entire company.

In addition, MOLOGEN plans to enter into partnerships with companies in the pharmaceutical industry for its product candidates and to grant licenses for the commercial exploitation of product candidates. Should MOLOGEN be successful in this venture, it could result in significant licensing payments for MOLOGEN, depending on market potential and development status of the respective drug candidate.

Such a contract should also result in an increase in value of the company, according to the assessment of MOLOGEN.

Major pharmaceutical or biotechnology companies are not only interested in acquiring licenses for promising drug candidates, there are regularly cases where companies with attractive technologies or product candidates have been acquired. Amounts are frequently offered which are much higher than the market price of the relevant company. MOLOGEN’s shareholders could also benefit from such a scenario.
REMUNERATION REPORT

The remuneration of members of the Executive Board consists of fixed (non-performance-related) and variable (performance-related and long-term share-based) components.

FIXED (NON-PERFORMANCE-RELATED) REMUNERATION COMPONENTS

BASIC COMPENSATION

Dr. Mariola Söhngen, Walter Miller and Dr. Alfredo Zurlo (member of the Executive Board up to March 31, 2016)

Each Executive Board member receives fixed basic compensation, which is paid in 12 equal installments net of the statutory deductions at the end of each calendar month.

FRINGE BENEFITS

Dr. Mariola Söhngen and Walter Miller

The fringe benefits comprise the costs for the financial benefits of compensation in kind and other fringe benefits such as flat rate compensation for official use of a personal car (Dr. Mariola Söhngen) or official use of a personal car, use of a company apartment and travel expenses between place of residence and place of work (Walter Miller), subsidies towards or payment in full of (medical, care, life and accident) insurance and removal costs and monthly contributions to health care (Dr. Mariola Söhngen) and a personal pension plan (Walter Miller) respectively as well as the reimbursement of expenses which Executive Board members incurred in connection with their work.

The company also takes out a criminal law protection insurance policy for Executive Board members.

In addition, as a policyholder, the company has taken out directors and officers liability insurance (D&O) for the member of the Executive Board, which covers the liability arising from Executive Board activities in the legal framework. The legally required minimum deductible rate is taken into account.

VARIABLE REMUNERATION COMPONENTS

BONUSES (PERFORMANCE-BASED REMUNERATION)

Dr. Mariola Söhngen and Walter Miller

The Executive Board members receive annual profit and performance-related remuneration (management bonus 1), the amount and payment of which is dependent on achieving individually agreed performance criteria. Performance criteria include meeting research and development-oriented targets, achieving objectives for the implementation of the company’s commercialization strategy and ensuring sufficient liquidity to finance the R&D activities. The performance targets for the management bonuses of Executive Board members are defined by means of a target agreement between the Executive Board members and the Supervisory Board – no later than at the beginning of the relevant financial year. If the targets cannot be agreed, the Supervisory Board will only set the performance targets unilaterally.

The Executive Board members also receive variable performance-related remuneration to be aspired to over a three-year period (management bonus 2), the amount of which is dependent on the recruitment of sufficient trial participants, the company’s strategic development and securing sufficient liquidity to finance R&D activities.

These variable compensation components (management bonuses 1 and 2) are each capped.

In addition, it is at the Supervisory Board’s discretion to reward the Executive Board members with a “recognition bonus”, not for special but extraordinary achievements on behalf of the company with a future benefit for the company.

Dr. Alfredo Zurlo
(member of the Executive Board up to March 31, 2016)

The fringe benefits comprise the costs for the financial benefits of compensation in kind and other fringe benefits such as subsidies towards medical and care insurance up to the maximum amount of statutory employer contributions for persons with voluntary insurance as well as reimbursement of expenses incurred by the Executive Board member in connection with his work. On request, an occupational disability insurance policy is taken out.

In addition, the company has taken out directors and officers liability insurance (D&O) for the member of the Executive Board, which covers the liability arising from Executive Board activities in the legal framework. The legally required minimum deductible rate is taken into account.

Dr. Alfredo Zurlo
(member of the Executive Board up to March 31, 2016)

The Executive Board is entitled to an annual bonus in the form of a management bonus or special compensation, the amount and payment of which is dependent on achieving individually agreed performance criteria. The success criteria include achieving R&D targets and the objectives for implementing the commercialization strategy. Before the beginning of the relevant year, the Supervisory Board defines the research and development-oriented performance targets and the objectives for the implementation of the company’s commercialization strategy. The sum total of the variable components of remuneration, bonuses and special payments is capped.
LONG-TERM SHARE-BASED REMUNERATION
Dr. Mariola Söhngen, Walter Miller and
Dr. Alfredo Zurlo (member of the Executive Board up to March 31, 2016)

Following the resolution of the Annual General Meeting, in the past MOLOGEN has initiated various employee participation programs and issued relevant share options to members of the Executive Board. The statutory waiting periods have been agreed for the share options.

OPTION OF REDUCING THE REMUNERATION
DR. MARIOLA SÖHNGEN, WALTER MILLER
AND DR. ALFREDO ZURLO
(MEMBER OF THE EXECUTIVE BOARD UP TO MARCH 31, 2016)

If the company’s situation deteriorates after the definition of total remuneration of the Executive Board members to such an extent that the continuation of the remuneration would be unreasonable for the company, then the Supervisory Board is entitled to unilaterally reduce the remuneration to the appropriate level in accordance with the legal regulations.

Dr. Mariola Söhngen and Walter Miller

The entitlement to variable compensation may be canceled in whole or in part by the Supervisory Board according to its reasonably exercised discretion on the grounds of relevant absences from work, for example due to sickness.

Dr. Alfredo Zurlo
(member of the Executive Board up to March 31, 2016)

For extraordinary developments, the Supervisory Board is further entitled at its sole discretion to cap variable remuneration elements; this cap may not be unreasonable.

EFFECTS OF DEATH OR INCAPACITY FOR WORK
DR. MARIOLA SÖHNGEN AND WALTER MILLER

In the event of permanent incapacity for work, the service contract shall expire three months after the end of the month in which the permanent incapacity for work is declared. In the event of death of the respective Executive Board member, the remuneration for the month of death as well as for the next six months is to be paid, but no longer than until the end of the agreed term of the respective service contract. In addition, the variable remuneration components for the relevant year or period due and/or achieved up to the death of the Executive Board member concerned are payable.

DR. ALFREDO ZURLO
(MEMBER OF THE EXECUTIVE BOARD UP TO MARCH 31, 2016)

Regulations have also been determined for the event of temporary or permanent incapacity for work or in case of the death of the Executive Board member. The service contracts of the Executive Board members stipulate that in case of temporary incapacity for work, remuneration shall continue to be paid, taking into account the sickness benefit paid by the health insurance, during the period of incapacity for work for a period of up to six months but no longer than until the end of the agreed term of the service contract of the respective Executive Board member (period in which remuneration continues to be paid).

In the event of a permanent incapacity for work, the service contract of the Executive Board member would have expired at the end of the quarter in which the permanent incapacity for work was declared. In the event of death of the Executive Board member, the remuneration for the month of death as well as for the next three months would have been payable, but no longer than until the end of the agreed term of the respective service contract. In addition, the due variable remuneration components of the relevant year or period until the death of the respective Executive Board member are to be paid.

COMMITMENTS IN CONNECTION WITH THE TERMINATION OF MEMBERSHIP OF THE EXECUTIVE BOARD
DR. MARIOLA SÖHNGEN AND WALTER MILLER

In the event of the contract of employment being terminated for a reason that is not at the same time an important reason as defined in Section 626 of the German Civil Code (Bürgerliches Gesetzbuch; BGB), Executive Board members shall receive a severance payment which equates to the amount of the fixed compensation due in the period between the premature termination and the end of the term of the contract of employment, but subject to a maximum of twice the fixed annual remuneration. Should the appointment be terminated for an important reason as defined in Section 626 of the BGB, all rights to severance payments and management bonuses shall lapse entirely. If the appointment is terminated for any other reason, the annual bonus granted is reduced pro
rata temporis for the relevant calendar year while bonus 2 is granted in full if the relevant targets are achieved.

In the event of a change of control (acquisition of at least 51% of the voting rights by a third party or several third parties acting together), the company and the two Executive Board members shall have the right to terminate contracts extraordinarily. Should this right be exercised, the Executive Board members’ service contracts provide for a severance payment, the amount of which depends on the date on which the appointment ends. Should the Executive Board members respectively resign before November 1, 2017 (Dr. Mariola Söhngen), and April 1, 2017 (Walter Miller), the Executive Board member shall receive a severance payment which equates to two years’ worth of compensation (all compensation components including management bonuses). In the event of a respective resignation on or after November 1, 2017 (Dr. Mariola Söhngen), and on or after April 1, 2017 (Walter Miller), the severance payment will equate to 1.5 years’ worth of compensation (all compensation components including management bonuses). In addition to these severance payments, all share options already granted will be vested immediately.

**DR. ALFREDO ZURLO**
**MEMBER OF THE EXECUTIVE BOARD UP TO MARCH 31, 2016**

In the event of the contract of employment being terminated prematurely by the Supervisory Board or by mutual agreement, the Executive Board member would have received a severance payment which equates to 1.5 times the fixed annual compensation plus all variable compensation components due up to that date. The prerequisite was that the agreement, if it was prematurely terminated by the Supervisory Board, was not terminated due to intentional or grossly negligent breach of duty or due to dismissal of the body for other important reasons.

In case of premature termination of the employment contract after announcing a change of control (assumption of control by a third party pursuant to Section 29 of the German Securities Acquisition and Takeover Act [Wertpapiererwerbs- und Übernahmegesetz; WpÜG]), the service contract of the Executive Board member included a provision for a severance payment in the amount of twice the fixed annual remuneration in addition to all variable compensation components attained up to this point plus the sum of the annual maximum variable remuneration components attainable during the original maturity of the contract discounted by 5%. It is irrelevant whether the contract was terminated by the company or by mutual agreement.

**REMUNERATION OF MEMBERS OF THE SUPERVISORY BOARD**

The remuneration of Supervisory Board members is decided by the Annual General Meeting. The Supervisory Board members receive an annual fixed remuneration amounting to €20 thousand, as well as an attendance fee of €1 thousand for each meeting which they attend. In addition, they receive reimbursement for expenses incurred in connection with their activities. The members of the Supervisory Board also receive performance-based variable remuneration starting from a positive result of €0.05 per share according to IFRS as adopted by the EU; the maximum amount is limited to €20 thousand per annum and member. In each case, the chairman receives twice this amounts. The performance target increases by €0.01 for each financial year after 2010.

**FURTHER INFORMATION ON THE REMUNERATION OF MEMBERS OF EXECUTIVE BODIES**

Further information on remuneration (including the share option program) can be found in the Notes to the annual financial statements.

**INFORMATION ACCORDING TO SECTION 289 PARA. 4 OF THE HGB**

As of December 31, 2016, the subscribed capital of the company exists in the amount of €33,947,251.00, split into 33,947,251 ordinary bearer shares with no-par value (no-par value shares). The shares are fully paid and admitted to trading on the regulated market (Prime Standard) on the Frankfurt Stock Exchange. Each share shall grant one vote. There are no different classes of shares.

To the knowledge of the Executive Board, there are no restrictions affecting voting rights or the transfer of shares, even if they may result from agreements between shareholders.

The following direct or indirect investments in its share capital exceeding 10% of the voting rights have been reported to the company in accordance with Section 21 of the German Securities Trading Act (Wertpapierhandelsgesetz; WpHG):

Thorsten Wagner, Germany: 28.72% (according to the notification of October 28, 2016). The voting rights are to be fully attributable to Thorsten Wagner in accordance with Section 22 Para. 1 Sentence 1 No. 1 of the WpHG. The name of the company controlled by Thorsten Wagner, of which 3% or more of the voting rights of MOLOGEN are attributed, is Global Derivative Trading GmbH, Lehrte, Germany. According to the notification of October 28, 2016, Global Derivative Trading GmbH, Lehrte, Germany, reported an investment of 28.68% of the voting rights.

Beyond this, no further direct or indirect investments in its share capital exceeding 10% of the voting rights have been reported to the company in accordance with Section 21 of the WpHG.

There are no shareholders with special rights or other voting rights control.
The appointment and dismissal of the members of the Executive Board occurs in accordance with Sections 84 ff. of the AktG. Amendments to the Articles of Association are made in accordance with the provisions of Sections 179 ff. of the AktG in conjunction with Article 20 of MOLOGEN’s Articles of Association. Furthermore, in accordance with Article 15 of MOLOGEN’s Articles of Association, the Supervisory Board is authorized to adopt amendments affecting the wording of the Articles of Association only.

The shareholders have given the Executive Board the following powers to issue new shares or conversion rights or to buy back shares:

(1) On the basis of the conditional capital 2014-1 existing in accordance with Article 4 Paragraph 8 of the Articles of Association, the Executive Board may issue up to €6,789,451 new no-par bearer shares to the holders or creditors of convertible bonds or bonds with warrants attached, profit-sharing certificates and/or profit-sharing bonds (or a combination of these instruments) which are issued by the company or group companies under the management of the company as authorized pursuant to the resolution of the Annual General Meeting on August 13, 2014 under agenda item 7b), and which give option or conversion rights to new no-par bearer shares of the company and/or determine a conversion obligation or preemptive tender right.

So far, no bonds with conversion and/or option rights or obligations have been issued on the basis of the authorization granted by the Annual General Meeting on August 13, 2014, under agenda item 7b), which will remain in force until August 12, 2019. According to the authorization, in the event of such bonds being issued, shareholders will in principle be entitled to subscribe to them. However, under certain preconditions described in more detail in the authorization, the Executive Board may, subject to the consent of the Supervisory Board, also exclude shareholders’ subscription rights to bonds, which are to be issued with conversion and/or option rights or conversion obligations.

(2) In addition, there is a conditional capital 2010 of up to €610,151 in accordance with Article 4 Para. 4 of the Articles of Association, a conditional capital 2011 of up to €238,393 in accordance with Article 4 Para. 5 of the Articles of Association, a conditional capital 2012 of up to €209,234 in accordance with Article 4 Para. 6 of the Articles of Association, a conditional capital 2013-1 of up to €328,672 in accordance with Article 4 Para. 7 of the Articles of Association, conditional capital 2014-2 of up to €176,051 in accordance with Article 4 Para. 9 of the Articles of Association and conditional capital 2015 of up to €700,649 in accordance with Article 4 Para. 10 of the Articles of Association. This conditional capital is used in each case to issue option and conversion rights to members of the Executive Board and to employees of the company on the basis of the authorizations granted by the Annual General Meeting in 2010, 2011, 2012, 2013, 2014 and 2015 respectively.

(3) The Executive Board may only buy back shares under the preconditions stated in Section 71 of the AktG. The Annual General Meeting has not granted the Executive Board an authorization to acquire treasury shares in accordance with Section 71 Paragraph 1 No. 8 of the AktG.

There are no material agreements by the company which are subject to the condition of a change of control resulting from a takeover offer. Information on compensation agreements which have been reached with members of the Executive Board in the event of a takeover offer can be found in the remuneration report.

There are no agreements of this kind with the company’s employees.

CORPORATE GOVERNANCE REPORT AND DECLARATION ON CORPORATE MANAGEMENT PURSUANT TO SECTION 289A OF THE HGB

The Corporate Governance Report (Declaration of Compliance) and the Declaration on Corporate Management pursuant to Section 289a of the HGB is available on the company website at: http://www.mologen.com/en/investor-relations/corporate-governance.

As a listed company, which is not, however, subject to co-determination legislation, the company has implemented the Law on the Equal Participation of Men and Women in Management Positions in Private Industry and in Public Service and has agreed a regulation in line with the statutory requirements. The target figures for the proportion of women have been set at 30% in the Supervisory Board and 30% in the Executive Board. The Executive Board has set the proportion of women in the two management levels below the Executive Board at 30%. The deadline for meeting these targets is June 30, 2017.

Berlin, March 8, 2017
Executive Board of MOLOGEN AG

Dr. Mariola Söhngen
Chief Executive Officer

Walter Miller
Chief Financial Officer
»Our financials are significantly determined by the study progress.«
# STATEMENT OF COMPREHENSIVE INCOME

According to IFRS for the period from January 1 to December 31, 2016

<table>
<thead>
<tr>
<th>Notes</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>1</td>
<td>74</td>
</tr>
<tr>
<td>Other operating income</td>
<td>2</td>
<td>36</td>
</tr>
<tr>
<td>Cost of material</td>
<td>3</td>
<td>-11,780</td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>4</td>
<td>-5,453</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>5</td>
<td>-408</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>6</td>
<td>-3,454</td>
</tr>
<tr>
<td>Profit (loss) from operations</td>
<td></td>
<td>-20,985</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance costs</td>
<td>7</td>
<td>-18</td>
</tr>
<tr>
<td>Finance income</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>Profit (loss) before taxes</td>
<td></td>
<td>-21,003</td>
</tr>
<tr>
<td>Tax result</td>
<td>8</td>
<td>0</td>
</tr>
<tr>
<td>Profit (loss) for the year / Comprehensive income</td>
<td></td>
<td>-21,003</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss carried forward</td>
<td></td>
<td>-104,771</td>
</tr>
<tr>
<td>Accumulated deficit</td>
<td></td>
<td>-125,774</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic earnings per share (in €)</td>
<td></td>
<td>-0.85</td>
</tr>
<tr>
<td>Dilutes earnings per share (in €)</td>
<td></td>
<td>0.99</td>
</tr>
</tbody>
</table>

1 Restatement according to IAS 1.45 in relation to IAS 8.14 et seq.
## STATEMENT OF FINANCIAL POSITION

According to IFRS as of December 31, 2016

€ ’000

<table>
<thead>
<tr>
<th></th>
<th>Notes</th>
<th>Dec 31, 2016</th>
<th>Dec 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>11</td>
<td>25</td>
<td>239</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>12</td>
<td>37</td>
<td>175</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>13</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td>21,300</td>
<td>25,981</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>14</td>
<td>20,520</td>
<td>24,592</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>15</td>
<td>33</td>
<td>0</td>
</tr>
<tr>
<td>Inventories</td>
<td>16</td>
<td>13</td>
<td>28</td>
</tr>
<tr>
<td>Other current assets</td>
<td>17</td>
<td>733</td>
<td>1,360</td>
</tr>
<tr>
<td>Income tax receivables</td>
<td>17</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>21,362</td>
<td>26,395</td>
</tr>
<tr>
<td><strong>EQUITIES AND LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>18</td>
<td>2,121</td>
<td>6</td>
</tr>
<tr>
<td>Deferred income</td>
<td></td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td></td>
<td>2,119</td>
<td>0</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td>19</td>
<td>7,404</td>
<td>6,886</td>
</tr>
<tr>
<td>Trade payables</td>
<td></td>
<td>6,530</td>
<td>6,390</td>
</tr>
<tr>
<td>Other current liabilities and deferred income</td>
<td></td>
<td>871</td>
<td>488</td>
</tr>
<tr>
<td>Liabilities to banks</td>
<td></td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td><strong>Shareholders’ equity</strong></td>
<td></td>
<td>11,837</td>
<td>19,503</td>
</tr>
<tr>
<td>Issued capital</td>
<td>20</td>
<td>33,947</td>
<td>22,632</td>
</tr>
<tr>
<td>Capital reserves</td>
<td>21</td>
<td>103,664</td>
<td>101,642</td>
</tr>
<tr>
<td>Accumulated deficit</td>
<td>22</td>
<td>-125,774</td>
<td>-104,771</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>21,362</td>
<td>26,395</td>
</tr>
</tbody>
</table>
## STATEMENT OF CASH FLOWS

According to IFRS for the period from January 1 to December 31, 2016

€ '000

<table>
<thead>
<tr>
<th>Notes</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss for the period before taxes</td>
<td>−21,003</td>
<td>−20,536</td>
</tr>
<tr>
<td>Depreciation and amortization of intangible assets and property, plant and equipment</td>
<td>408</td>
<td>121</td>
</tr>
<tr>
<td>Profit from disposal of intangible assets and property, plant and equipment</td>
<td>−12</td>
<td>0</td>
</tr>
<tr>
<td>Other non-cash expenses and income</td>
<td>210</td>
<td>534</td>
</tr>
<tr>
<td>Change in trade receivables, inventories and other assets</td>
<td>609</td>
<td>−352</td>
</tr>
<tr>
<td>Change in trade payables and other liabilities</td>
<td>518</td>
<td>5,138</td>
</tr>
<tr>
<td>Interest expenses/interest income</td>
<td>18</td>
<td>−3</td>
</tr>
<tr>
<td>Income tax expenses/-income</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Income tax payments</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td><strong>Net cash used in operating activities</strong></td>
<td><strong>−19,252</strong></td>
<td><strong>−15,086</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from the disposal of property, plant and equipment</td>
<td>13</td>
<td>0</td>
</tr>
<tr>
<td>Cash payments to acquire property, plant and equipment</td>
<td>−23</td>
<td>−87</td>
</tr>
<tr>
<td>Cash payments to acquire intangible assets</td>
<td>−34</td>
<td>−8</td>
</tr>
<tr>
<td>Interest received</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td><strong>−44</strong></td>
<td><strong>−92</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash proceeds from issuing shares (authorized capital)</td>
<td>12,706</td>
<td>26,207</td>
</tr>
<tr>
<td>Cash proceeds (after deduction of expenses for the equity component) from the issuance of a convertible bond</td>
<td>2,535</td>
<td>0</td>
</tr>
<tr>
<td>Interest paid</td>
<td>−18</td>
<td>0</td>
</tr>
<tr>
<td><strong>Net cash used in financing activities</strong></td>
<td><strong>15,223</strong></td>
<td><strong>26,207</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Effect of exchange rate changes on cash</strong></td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total changes in cash and cash equivalents</strong></td>
<td><strong>−4,072</strong></td>
<td><strong>11,029</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the beginning of the period</strong></td>
<td>24,592</td>
<td>13,563</td>
</tr>
<tr>
<td>Deposits with a term of more than three months at the beginning of the period</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the end of the period</strong></td>
<td><strong>20,520</strong></td>
<td><strong>24,592</strong></td>
</tr>
<tr>
<td>Deposits with a term of more than three months at the end of the period</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Liquid funds at the end of the reporting period</strong></td>
<td>20,520</td>
<td>24,592</td>
</tr>
</tbody>
</table>
## STATEMENT OF CHANGES IN EQUITY

According to IFRS for the period from January 1 to December 31, 2016

€ ’000 except share data

<table>
<thead>
<tr>
<th></th>
<th>Issued Capital</th>
<th>Capital Reserves</th>
<th>Accumulated Deficit</th>
<th>Shareholder’s Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>As of Dec 31, 2014</strong></td>
<td>16,973,626</td>
<td>16,974</td>
<td>80,559</td>
<td>−84,235</td>
</tr>
<tr>
<td>Capital increase in exchange for cash contributions</td>
<td>5,657,875</td>
<td>5,658</td>
<td>20,549</td>
<td>26,207</td>
</tr>
<tr>
<td>Share options exercised</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value of services rendered by employees (according to IFRS 2)</td>
<td>0</td>
<td>534</td>
<td>534</td>
<td></td>
</tr>
<tr>
<td>Loss for the year</td>
<td></td>
<td></td>
<td>−20,536</td>
<td>−20,536</td>
</tr>
</tbody>
</table>

| **As of Dec 31, 2015** | 22,631,501     | 22,632          | 101,642             | −104,771             | 19,503 |
| Capital increase in exchange for cash contributions | 11,315,750 | 11,315         | 1,390               | 12,705               |
| Equity component of a convertible bond | 0        | 417            | 417                 | 0                    |
| Share options exercised | 0               |                 |                     |                      |
| Value of services rendered by employees (according to IFRS 2) | 0     | 215            | 215                 |                      |
| Loss for the year      |                |                 | −21,003             | −21,003              |

| **As of Dec 31, 2016** | 33,947,251     | 33,947          | 103,664             | −125,774             | 11,837 |

02 | FINANCIAL INFORMATION | INDIVIDUAL ANNUAL FINANCIAL STATEMENTS | STATEMENT OF CHANGES IN EQUITY | ANNUAL REPORT 2016 MOLOGEN | 71
# STATEMENT OF CHANGES IN FIXED ASSETS

According to IFRS for the period from January 1 to December 31, 2016

€ '000

<table>
<thead>
<tr>
<th></th>
<th>I. Property, plant and equipment</th>
<th>II. Intangible assets</th>
<th>Fixed assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Technical equipment</td>
<td>Office and operating equipment</td>
<td>Total</td>
</tr>
<tr>
<td>Acquisition/</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As of January 1, 2015</td>
<td>872</td>
<td>340</td>
<td>1,212</td>
</tr>
<tr>
<td>Additions</td>
<td>44</td>
<td>43</td>
<td>87</td>
</tr>
<tr>
<td>Disposals</td>
<td>23</td>
<td>30</td>
<td>53</td>
</tr>
<tr>
<td>As of December 31, 2015</td>
<td>893</td>
<td>353</td>
<td>1,246</td>
</tr>
<tr>
<td>Additions</td>
<td>1</td>
<td>22</td>
<td>23</td>
</tr>
<tr>
<td>Disposals</td>
<td>58</td>
<td>24</td>
<td>82</td>
</tr>
<tr>
<td>As of December 31, 2016</td>
<td>836</td>
<td>351</td>
<td>1,187</td>
</tr>
</tbody>
</table>

| Depreciation and    |                                 |                       |       |       |       |
| amortization        |                                 |                       |       |       |       |
| As of January 1, 2015 | 679                             | 299                   | 978   | 4,038 | 4,038 |
| Additions            | 35                              | 46                    | 81    | 40    | 40    |
| Disposals            | 23                              | 29                    | 52    | 112   | 112   |
| As of December 31, 2015 | 691                             | 316                   | 1,007 | 3,966 | 3,966 |
| Additions            | 203                             | 33                    | 236   | 172   | 172   |
| Disposals            | 58                              | 23                    | 81    | 175   | 175   |
| As of December 31, 2016 | 836                             | 326                   | 1,162 | 3,963 | 3,963 |

| Book value           |                                 |                       |       |       |       |
| As of January 1, 2015 | 193                             | 41                    | 234   | 206   | 206   |
| As of December 31, 2015 | 202                             | 37                    | 239   | 175   | 175   |
| As of December 31, 2016 | 0                               | 25                    | 25    | 37    | 37    |

---

72 MOLOGEN ANNUAL REPORT 2016 02 | FINANCIAL INFORMATION INDIVIDUAL ANNUAL FINANCIAL STATEMENTS STATEMENT OF CHANGES IN FIXED ASSETS
NOTES IN ACCORDANCE WITH IFRS FOR FISCAL YEAR 2016

A. GENERAL INFORMATION ON THE COMPANY

Mologen AG (hereinafter: MOLOGEN) is a stock corporation as defined under the law of the Federal Republic of Germany with its headquarters in Berlin (Fabeckstraße 30, 14195 Berlin, Germany). It was founded on January 14, 1998 and is registered in the Commercial Register of the Local Court at Berlin-Charlottenburg under the number HRB 65633 B. The shares of the company are listed on the Regulated Market (Prime Standard) at the Frankfurt Stock Exchange under ISIN DE0006637200.

The objective of the company is the research, development and marketing of products in the area of molecular medicine. In particular, this encompasses application-related clinical research and development for biomolecular tumor therapy (immune surveillance reactivators). The main focus of research is the dSLIM® technologies patented by MOLOGEN. These facilitate the use of DNA as a drug for diseases that were previously untreatable or for which treatment is insufficient. As a currently inactive project, the company also has a cell-based therapeutics tumor vaccine.

B. GENERAL INFORMATION ON THE FINANCIAL STATEMENTS

The present MOLOGEN financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as adopted by the European Union (EU). The International Accounting Standards (IAS) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly Standard Interpretation Committee (SIC), as adopted by the EU, have also been applied for the present financial statements.

The reporting period of these financial statements is the period from January 1, 2016 to December 31, 2016. The reference period for the present financial statements is the period from January 1, 2015 to December 31, 2015.

The going concern principle is applied in the valuation of assets and liabilities.

The functional and presentation currency in the financial statements is the euro (€). To improve readability, numbers are rounded and stated in thousands of euro (€ ‘000), unless otherwise specified.

The statement of comprehensive income has been prepared using the total cost method.

A decision was taken to not apply IFRS 8 (Operating Segments) as the technologies and product candidates of MOLOGEN are still at research or development stage. Cash flows and corresponding expenses cannot be clearly attributed to the individual product candidates or technologies because different combinations of proprietary and licensed technologies are used for different product candidates. No information benefit would be gained from the expense and earnings information available from segment reporting as compared with the other components of the financial statements.

APPLICATION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS

The following new and revised standards and interpretations are to be applied to financial years beginning on or after January 1, 2016. They have been applied for the first time by MOLOGEN. The application has resulted in no significant impact on the financial performance and the financial position of MOLOGEN.
### Applicable to financial years starting on or after January 1, 2016:

<table>
<thead>
<tr>
<th>Standard</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAS 16/IAS 38</td>
<td>Property, Plant and Equipment / Intangible Assets; Clarification of acceptable methods for the depreciation and amortization of property, plant and equipment/intangible assets.</td>
</tr>
<tr>
<td>AIP 2012–2014</td>
<td>Annual improvements; Amendments to and clarifications of various IFRS.</td>
</tr>
<tr>
<td>IAS 1</td>
<td>Presentation of Financial Statements; Rectification of difficulties, which those preparing financial statements perceive in relation to exercising discretion when presenting the financial statements.</td>
</tr>
</tbody>
</table>

The following new and revised standards and interpretations are to be applied to financial years beginning on or after January 1, 2016. Application of them would be mandatory for MOLOGEN, if they had been of relevance for the company.

<table>
<thead>
<tr>
<th>Standard</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 11</td>
<td>Joint Arrangements; The acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11.</td>
</tr>
<tr>
<td>IFRS 14</td>
<td>Regulatory Deferral Accounts (application not yet mandatory, as not proposed for endorsement in the European Union); Enables first-time adopters of IFRS to continue recognizing regulatory deferral accounts in their annual financial statements in accordance with most of their existing accounting principles, with some limited restrictions.</td>
</tr>
<tr>
<td>IAS 16/IAS 41</td>
<td>Property, Plant and Equipment/Agriculture; Bearer plants for which the biological transformation is no longer significant are now included within the scope of IAS 16 and can consequently be recognized as bearer biological assets.</td>
</tr>
<tr>
<td>IAS 27</td>
<td>Separate Financial Statements; Amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in the financial statements of the investor.</td>
</tr>
<tr>
<td>IFRS 10/IAS 28</td>
<td>Consolidated Financial Statements/Investments in Associates and Joint Ventures (date of entry into force postponed indefinitely); Clarification that the extent of gains or losses for transactions with an associate or joint venture depends on whether the gain or loss results from the sale or contribution of assets that constitute a business.</td>
</tr>
<tr>
<td>IFRS 10/IAS 12/IAS 28</td>
<td>Consolidated Financial Statements/Disclosures of Interests in Other Entities/Investments in Associates and Joint Ventures; Amendments to consolidation exceptions for investment entities.</td>
</tr>
<tr>
<td>IAS 19</td>
<td>Employee Benefits; Clarification of the accounting for contributions from employees or third parties associated with years of service. The objective is to simplify accounting for contributions that are unrelated to the number of years of employee service.</td>
</tr>
<tr>
<td>AIP 2010–2012</td>
<td>Annual improvements; Amendments to and clarifications of various IFRS.</td>
</tr>
</tbody>
</table>

The following new and amended standards and interpretations were adopted, but have not yet come into effect, and in some cases adoption by the EU is still pending. MOLOGEN has not applied them prematurely.

### Applicable to financial years starting on or after January 1, 2017:

<table>
<thead>
<tr>
<th>Standard</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAS 7</td>
<td>Statement of Cash Flows; Entities to provide disclosures that enable changes in liabilities arising from financing activities to be evaluated.</td>
</tr>
<tr>
<td>IAS 12</td>
<td>Income Taxes; Clarification on the recognition of deferred tax assets for unrealized losses related to financial assets recognized at fair value.</td>
</tr>
<tr>
<td>AIP 2014–2016</td>
<td>Annual improvements; Amendments and clarifications.</td>
</tr>
</tbody>
</table>
Applicable to financial years starting on or after January 1, 2018:

**IFRS 15**  
Revenue from Contracts with Customers  
The new standard sets out when to recognize revenue and how much revenue to recognize. It replaces the previous IAS 18 (Revenue) and IAS 11 (Construction Contracts) as well as the related Interpretations on revenue recognition. It applies to almost all contracts with customers, with the notable exceptions of leases, insurance contracts and financial instruments. MOLOGEN is currently assessing what impact the application of IFRS 15 would have on the individual annual financial statements of the company. On the basis of initial analyses, application is not expected to have any material effect on the financial performance and financial position on account of the fact that no significant revenues are generated by MOLOGEN at present. Furthermore, any current sales are owing to purchase agreements which have been structured in a straightforward way.

**IFRS 9**  
Recognition, Classification and Measurement of Financial Instruments  
This standard replaces IAS 39 and includes changes to the classification requirements and new guidance for the measurement of impairments. MOLOGEN is currently assessing what impact the application of IFRS 9 would have on the individual annual financial statements of the company. On the basis of initial analyses, application is not expected to have any material effect on the financial performance and financial position on account of the main financial instruments used by MOLOGEN.

**IFRS 2**  
Share-based Payment  
Amendments to recognition of cash-settled share-based payment transactions.

**IFRS 4**  
Insurance Contracts  
Amendments aimed at reducing consequences on account of the different effective dates of IFRS 9 and IFRS 4, above all for companies with comprehensive insurance activities.

**AIP 2014–2016**  
Annual improvements  
Amendments and clarifications.

**IFRIC 22**  
Foreign Currency Transactions and Advance Consideration  
Clarification on the accounting for business transactions that include the receipt or payment of advance consideration in a foreign currency.

**IAS 40**  
Investment Property  
Clarification on the guidance in relation to transfers into or out of the investment property portfolio.

Applicable to financial years starting on or after January 1, 2019:

**IFRS 16**  
Leases  
This standard replaces the previously applicable standard IAS 17 as well as three leasing-related interpretations. MOLOGEN is currently assessing what impact the application of IFRS 16 would have on the individual annual financial statements of the company. On the basis of initial analyses, application is not expected to have any material effect on the financial performance and financial position on account of the fact that all major lease arrangements can be terminated within one year.

### ADJUSTMENTS IN LINE WITH IAS 1.45 IN CONJUNCTION WITH IAS 8.14 FF

<table>
<thead>
<tr>
<th>€ '000</th>
<th>Published in the previous year's financial statements</th>
<th>Adjustments</th>
<th>Adjustment to previous year's financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement of comprehensive income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of materials</td>
<td>11,011</td>
<td>670</td>
<td>11,681</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>4,378</td>
<td>–670</td>
<td>3,708</td>
</tr>
</tbody>
</table>

Any adjustments relate to changes in the recognition of items in the statement of comprehensive income with no impact on profit.

The changes result from the now standardized recognition of pass-through costs in an item listed under the statement of comprehensive income. These expenses relate primarily to travel costs, courier costs and other expenses that are charged by MOLOGEN’s Clinical Research Organizations (CROs) and test centers for the services they provide to clinical trials. In addition, consulting services in relation to clinical development was reclassified as cost of materials. The adjustments are detailed under Section D “Notes to the statement of comprehensive income for the period from January 1 to December 31, 2016”. 
C. ACCOUNTING AND VALUATION METHODS

The significant accounting and valuation methods that have been applied in the preparation of the present financial statements are presented below. They have been substantially retained in the financial year under review.

The financial statements were compiled according to the cost principle. Assets and liabilities are recorded in the financial position at amortized cost.

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is valued at initial recognition minus principal repayments, plus or minus the cumulative amortization of any difference between that initial amount and the maturity amount using the effective interest method and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility (IAS 39).

The preparation of financial statements in accordance with IFRS requires assumptions or estimates to be made regarding some items that affect the amounts reported in the company’s statement of financial position or statement of comprehensive income. All estimates are reevaluated on an ongoing basis and are based on an empirical basis and other factors, including expectations concerning future events that appear reasonable under the given circumstances.

Estimation uncertainties may arise from determining service life and the intrinsic values of intangible assets and property, plant and equipment as well as from the estimation of the extent to which future tax benefits can be realized when recording deferred tax assets.

The company reviews the book value of assets and liabilities as of the reporting date for any indication that an impairment has arisen. In this case, the recoverable amount of a particular asset or repayment amount of a liability is determined to ascertain the scope of the allowances that may need to be recorded.

Property, plant and equipment and intangible assets are reported at their acquisition cost less scheduled depreciation and amortization based on use according to the cost model (IAS 16.30). Depreciation and amortization are recorded on a straight-line, pro rata temporis basis and start in the month in which the asset was acquired or placed into service. The average service life is between 3 and 14 years (software, technologies, patents and licenses as well as other rights: 3 to 10 years; technical equipment: 3 to 10 years; machinery and office equipment: 3 to 14 years). Depreciation and amortization of property, plant and equipment and intangible assets are reported in the statement of comprehensive income under depreciation and amortization.

The expected service life as well as the depreciation and amortization methods are reviewed at the end of each financial year. Should estimates require revision, these will be taken into account prospectively. The book values of property, plant and equipment and intangible assets are also reviewed as of the reporting date. If the review identifies any evidence of impairment, this is reported under expenses. In both the financial year under review and the reference period, there were no changes in the estimated service life or depreciation and amortization methods. However, unscheduled impairments were recorded for both property, plant and equipment and intangible assets in the financial year under review.

Government grants are recorded if it can be reasonably assumed that the grant will be paid out and that the company fulfills the necessary conditions for receiving the grant.

Government grants for costs are posted as income over the period in which the costs to be compensated by the respective grants are incurred.

Government grants for investments are reported as deferred income within non-current liabilities. They are depreciated through the income statement on a straight-line basis over the expected service life of the relevant asset.

Research costs are expenses for original and scheduled investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding (IAS 38.8). This should be recorded as an expense in the period in which it is incurred (IAS 38.54). Research costs are expenses which are necessary for conducting research activities. This includes personnel expenses, direct costs and directly attributable variable and fixed overhead costs. These expenses are recognized as a cost at the time they arise in accordance with their cause.

Development costs include expenses that serve to put theoretical knowledge into technical and commercial use. They are capitalized if, among other aspects, they can be identified as such and if future cash flows can be allocated to them clearly and with a high probability factor (IAS 38.57). In view of the fact that not all criteria specified by IFRS can be met at the same time and due to the risks existing before commercialization, development costs have not been capitalized.

Acquisition and manufacturing costs as well as accumulated depreciation and amortization are recognized as asset disposals. Results from asset disposals (disposal proceeds minus net book value) are reported in the statement of comprehensive income under other operating income or other operating expenses.

Liquid funds include cash reserves and bank balances reported at nominal value. The conversion of a bank deposit existing in foreign currency is carried out according to the daily exchange rate in the case of an incoming or outgoing payment. The evaluation takes place at the current
exchange rate as of the reporting date. The differences arising from the valuation are recognized in the statement of comprehensive income. In principle, liquid funds are divided into cash and cash equivalents and fixed term deposits with a term of more than three months on both the statement of financial position and the statement of cash flows.

**Trade receivables** are reported at their amortized cost.

MOLOGEN's assets recognized as **inventories** are goods that are reported at amortized cost and calculated according to the first in, first out (FIFO) method. There are no stocks of raw materials, supplies and goods raw materials, work in progress, finished goods or services.

**Other non-current and current assets** are reported at amortized cost.

A **financial instrument** is a contract that simultaneously creates a financial asset at one company and a financial liability or an equity instrument at another.

In principle, these include both original and derivative financial instruments. In fiscal year 2016 and the reference period, MOLOGEN held no derivative financial instruments, either with or without an accounting hedging relationship.

The original financial instruments are reported under other non-current financial assets, trade receivables, other current assets/liabilities, liquid funds, as well as non-current and current liabilities, and explained accordingly. Further comprehensive explanations of the financial instruments can be found in Section H “Notes on the type and management of financial risks”.

In principle, financial instruments are recorded for the first time on the settlement date. Financial instruments are measured at fair value when first reported. This takes into account the transaction costs attributable to the acquisition of all financial assets and liabilities that are not recorded at fair value through the income statement in subsequent periods.

The financial assets held by MOLOGEN in fiscal year 2016 and the reference period consist of liquid funds, trade receivables and other receivables with fixed or definable payments which are not listed in an active market.

The financial assets are reviewed on each reporting date for indications of impairment. Financial assets are impaired if, as a result of one or more events that occurred after the initial recognition of assets, there is a substantive indication that the expected future cash flows of the assets have negatively changed.

Financial assets are derecognized if the contractual rights to payment have expired or have been transferred.

No reclassifications were carried out between the valuation categories in fiscal year 2016 or the reference period.

**Financial liabilities** are categorized either as financial liabilities measured at fair value through the income statement or as other financial liabilities.

The financial liabilities held by MOLOGEN in fiscal year 2016 and in the reference period consist of liabilities to banks, trade payables, liabilities from the issuance of the convertible bond (fiscal year 2016) and other liabilities and are assigned to the category of other financial liabilities.

Compound financial instruments that constitute a financial liability for the company and grant a guaranteed option to the holder for conversion into an equity instrument of the company are reported separately in the balance sheet under equity and liability components. The equity and liability components are measured at fair value.

For the subsequent valuation, other financial liabilities are valued at amortized cost in accordance with the effective interest rate method, whereby interest expense is recorded at the effective interest rate, if applicable.

No reclassifications were carried out between the valuation categories in fiscal year 2016 or the reference period.

Financial liabilities are derecognized if they are liquidated, i.e. if the obligations have been settled, revoked or have expired.

In principle, foreign currency liabilities are converted at the prevailing exchange rate as of the reporting date and any differences posted under income.

**Provisions** (IAS 37) are liabilities which are uncertain, either in terms of their due date or their amount. They accrue from an event in the past for which a present liability exists. This liability is likely and their amounts can be estimated reliably.

**TAXES**

**CURRENT TAX ASSETS AND TAX LIABILITIES**

Current tax assets and liabilities for fiscal year 2016 and the reference period are assessed on the basis of the amount that is expected to be reimbursed by or paid to the tax authority. The amount is calculated on the basis of the applicable tax rates and the tax laws in force at the time of the legal accrual.
DEFERRED TAXES

Deferred taxes are recorded for the temporary differences between the commercial and tax balance sheets as of the reporting date. They are recognized in the amount of expected tax burden or relief in subsequent financial years. Tax credits are only reported if it is most probable that they will be realized (IAS 12.27). The calculation is based on the anticipated tax rates at the time of realization that are valid or legally adopted as of the reporting date. Tax assets and liabilities are only offset if the taxes can be netted in relation to a tax authority (IAS 12.74).

Current and deferred taxes are recognized as expense or income unless they are related to items that are recognized directly in shareholders’ equity, in which case, the tax is recorded directly under shareholders’ equity. In fiscal year 2016 and the reference period no income taxes were recognized as expense, income or directly in shareholders’ equity. Deferred tax assets were not recognized in view of significant uncertainties with respect to their realizability.

Ordinary shares are classified as shareholders’ equity. Costs that are directly attributable to the issue of new shares, options or the equity component of convertible bonds are recorded in shareholders’ equity (net of taxes) as a deduction from issue proceeds.

As remuneration for work performed, employees of the company (including management) receive share-based payments in the form of equity instruments (transaction with compensation through equity instruments). In contrast to prior years, the share option programs established in fiscal year 2013 include a settlement option for MOGEN. To satisfy employee stock options, the company can choose to grant either its own shares or a cash payment instead of new shares from conditional capital.

In accordance with IFRS 2.42, a current obligation to cash compensation does not exist and is not yet in sight. The share options granted under share option programs after 2013 must therefore also be reported in accordance with the regulations for share-based payments with settlement through equity instruments (IFRS 2.43).

Expenses resulting from the granting of equity instruments and the corresponding increase in shareholders’ equity are recorded over the period during which the vesting or service conditions must be fulfilled (vesting period).

This period ends on the day of the first opportunity to exercise the option, meaning the date on which the relevant employee has an irrevocable subscription right. The accumulated cost of granting the equity instruments reported on each reporting date up to the time of the first exercise opportunity reflect the part of the vesting period which has already expired and the number of equity instruments that will actually be able to be exercised according to the best-possible estimate of the company on expiry of the vesting period. The amount that is recorded in the statement of comprehensive income reflects the development of the accumulated costs recorded at the beginning and end of the financial year.

Expenses and income for the financial year are recognized, regardless of the time of payment, if they are realized. Proceeds from the sale of goods and services, technologies, licensing and distribution rights as well as consulting services are realized if the due delivery or service is provided, the risk is transferred, the amount of the expected consideration can be reliably estimated and it is probable that the economic benefit from the transaction will accrue to the company. When services for which fees have been paid or received in advance are only performed in subsequent periods, the payments are recorded as deferred or accrued income that is accreted over the period in which the service are performed.

Gains and losses resulting from foreign currency conversion are netted in accordance with IAS 1.35, because, as such, they are immaterial.

D. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME AND STATEMENT OF CASH FLOWS FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2016

In contrast to the prior year, these Notes will first discuss the statement of comprehensive income and statement of cash flows, which will then be followed by an assessment of the individual balance sheet items. This order corresponds to our internal reporting and improves the readability of the disclosures. Consequently, there will be some differences in the presentation of the Notes when compared with the previous year.

(1) REVENUES

Revenues from goods and services in the amount of €74 thousand (previous year: €39 thousand) resulting from domestic business. These are in part due to one-off effects and are therefore subject to fluctuations.

(2) OTHER OPERATING INCOME

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from other accounting periods</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Remaining other operating income</td>
<td>33</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>36</strong></td>
<td><strong>6</strong></td>
</tr>
</tbody>
</table>
(3) COST OF MATERIALS

€ '000

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenses for raw materials and consumables used</td>
<td>123</td>
<td>1,827</td>
</tr>
<tr>
<td>Expenses for services from third parties</td>
<td>11,657</td>
<td>9,854</td>
</tr>
<tr>
<td></td>
<td>11,780</td>
<td>11,681</td>
</tr>
</tbody>
</table>

1 The figures for the previous year were adjusted in accordance with IAS 1.45 in conjunction with IAS 8.14 ff. Explanations under Section B in the Notes.

The adjustments to the previous year's values in accordance with IAS 1.45 in conjunction with IAS 8.14 ff. relate to changes in the recognition of items in the statement of comprehensive income with no impact on profit.

The results reflect the now standardized recognition of pass-through costs in an item listed under the statement of comprehensive income, in cost of materials. These expenses relate primarily to travel costs, courier costs and other expenses that are charged by MOLOGEN's Clinical Research Organizations (CROs) and test centers for the services they provide to clinical trials. Consulting services in relation to clinical development were also reclassified. As a result of these reclassifications, the cost of materials in the previous year rose by €670 thousand (item: expenses for services from third parties).

The cost of materials increased slightly in fiscal year 2016 when compared with the prior financial year. In fiscal year 2016, expenses for raw materials and consumables used declined year on year, because, in contrast to the previous year, there was no expenses for raw materials and consumables used associated with the investigational medicinal product (IMP) in the IMPULSE and IMPALA clinical trials. Expenses for services from third parties recorded a year-on-year increase in fiscal year 2016. This rise is attributable to the advancement of clinical trials.

Changes in inventory amounting to €15 thousand (previous year: €2 thousand) are included under expenses for raw materials and consumables used.

(4) PERSONNEL EXPENSES

€ '000

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries</td>
<td>4,284</td>
<td>4,023</td>
</tr>
<tr>
<td>Social insurance contributions</td>
<td>583</td>
<td>517</td>
</tr>
<tr>
<td>Payments owing to termination of the employment relationship</td>
<td>371</td>
<td>0</td>
</tr>
<tr>
<td>Share options granted (according to IFRS 2)</td>
<td>215</td>
<td>534</td>
</tr>
<tr>
<td></td>
<td>5,453</td>
<td>5,074</td>
</tr>
</tbody>
</table>

The increase in wages and salaries compared to the prior year is primarily due to the recruitment of additional employees towards the end of 2015. This increase is offset by a reduction in the expense resulting from the granting of employee stock options.

The social insurance contributions include expenses for defined contributions plans amounting to €58 thousand (previous year: €35 thousand). Expenses of €24 thousand are attributable to two members of the Executive Board (previous year: €8 thousand).

On account of the Next Level strategy change that was announced in the first half year of 2016 and the associated reorganization of internal production capacities and the company's own research activities, employee severance payments in the amount of €371 thousand became due (previous year: €0 thousand).

The average number of staff employed at MOLOGEN over the previous year was 57 (excluding the Executive Board and employees on parental leave (previous year: 58)). Broken down, 45 of these employees worked in research and development and the remaining 12 in administration.

Employee structure on the reporting date (including temporary staff and employees on parental leave):

<table>
<thead>
<tr>
<th></th>
<th>Dec 31, 2016</th>
<th>Dec 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Board</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Research and development department (R&amp;D)</td>
<td>44</td>
<td>51</td>
</tr>
<tr>
<td>Administration</td>
<td>13</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>59</td>
<td>66</td>
</tr>
</tbody>
</table>

(5) DEPRECIATION AND AMORTIZATION

Depreciation and amortization of intangible assets and property, plant and equipment relates to scheduled depreciation and amortization in the amount of €104 thousand (previous year: €121 thousand) and unscheduled depreciation and amortization of €304 thousand (previous year: €0 thousand). On account of the Next Level strategy change that was announced in the first half year of 2016, property, plant and equipment and intangible assets no longer required were written off on an unscheduled basis.

€ '000

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible assets</td>
<td>172</td>
<td>40</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>236</td>
<td>81</td>
</tr>
<tr>
<td></td>
<td>408</td>
<td>121</td>
</tr>
</tbody>
</table>
(6) OTHER OPERATING EXPENSES

€’000

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal and consulting costs</td>
<td>822</td>
<td>795</td>
</tr>
<tr>
<td>Marketing/investor relations</td>
<td>514</td>
<td>420</td>
</tr>
<tr>
<td>Consulting costs for business development</td>
<td>453</td>
<td>85</td>
</tr>
<tr>
<td>Administration costs</td>
<td>451</td>
<td>411</td>
</tr>
<tr>
<td>Travel costs</td>
<td>332</td>
<td>392</td>
</tr>
<tr>
<td>Patent costs</td>
<td>368</td>
<td>402</td>
</tr>
<tr>
<td>Occupancy costs</td>
<td>216</td>
<td>209</td>
</tr>
<tr>
<td>Non-wage personnel costs</td>
<td>100</td>
<td>506</td>
</tr>
<tr>
<td>Maintenance</td>
<td>61</td>
<td>90</td>
</tr>
<tr>
<td>Remaining other operating expenses</td>
<td>137</td>
<td>398</td>
</tr>
</tbody>
</table>

3,454 3,708

1 The figures for the previous year were adjusted in accordance with IAS 1.45 in conjunction with IAS 8.14 ff. Explanations under Section B in the Notes.

The adjustments to the previous year’s values in accordance with IAS 1.45 in conjunction with IAS 8.14 ff relate to changes in the recognition of items in the statement of comprehensive income with no impact on profit.

The changes result from the now standardized recognition of pass-through costs in an item listed under the statement of comprehensive income, in cost of materials. These expenses relate primarily to travel costs, courier costs and other expenses that are charged by MOLOGEN’s Clinical Research Organizations (CROs) and test centers for the services they provide to clinical trials. Consulting services in relation to clinical development were also reclassified. Other operating expenses (items: legal and consulting costs, travel costs, administration costs and cost of marketing/investor relations) for the previous year were reduced by a total of €670 thousand, while cost of materials (item: expenses for services from third parties) conversely increased by the same amount.

In addition, services within other operating expenses were reclassified from legal and consulting costs to cost of marketing/investor relations.

Expenses incurred in relation with consultancy services for business development are no longer recognized under legal and consulting costs, but instead reported under consulting costs for business development.

Employees who were made redundant in connection with the new Next Level strategy were offered advisory services to support their professional reorientation. The associated expense in the amount of €61 thousand was reported under legal and consulting costs.

Other operating expenses decreased by €254 thousand compared with the adjusted value for the prior year.

(7) COST OF FINANCING AND FINANCE INCOME

Cost of Financing

€’000

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other interest expense</td>
<td>18</td>
<td>0</td>
</tr>
</tbody>
</table>

Other interest expense includes interest expenses in the amount of €16 thousand (previous year: €0 thousand) in connection with the issuance of a convertible bond and negative interest on credit balances of €2 thousand (previous year: €0 thousand).

Financial income

€’000

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on financial assets</td>
<td>0</td>
<td>3</td>
</tr>
</tbody>
</table>

(8) TAX INCOME

Current tax assets and tax liabilities

No income tax was reported in fiscal year 2016 or the reference period.
Deferred taxes
Under German law, MOLOGEN can offset its corporate tax loss carryforwards of €134.5 million (previous year: €112.9 million) and trade tax loss carryforwards of €132.7 million (previous year: €111.2 million) against future taxable income. However, there is uncertainty about future offsetting possibilities because the future earnings capacity is difficult to predict. As a result, deferred tax liabilities have not been reported.

Structure of deferred taxes and their allowances:

<table>
<thead>
<tr>
<th>€ ’000</th>
<th>Balance sheet item/loss carried forward</th>
<th>Difference</th>
<th>Deferred tax before allowances</th>
<th>Allowances</th>
<th>Deferred tax after allowances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 31, 2015</td>
<td>Temporary difference</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Total deferred tax liabilities</td>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Temporary difference</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Tax loss carryforwards</td>
<td>33,822</td>
<td>–33,822</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total deferred tax assets</td>
<td>33,822</td>
<td>–33,822</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Deferred taxes offset as of Dec 31, 2015</td>
<td>33,822</td>
<td>–33,822</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Dec 31, 2016</td>
<td>Temporary difference</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Total deferred tax liabilities</td>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Temporary difference</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Tax loss carryforwards</td>
<td>40,332</td>
<td>–40,332</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total deferred tax assets</td>
<td>40,332</td>
<td>–40,332</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Deferred taxes offset as of Dec 31, 2016</td>
<td>40,332</td>
<td>–40,332</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

The calculations are based on a combined income tax rate of 30.2%. This takes into account corporate tax, the solidarity surcharge and trade tax.

Reconciliation of expected to effective tax result:

<table>
<thead>
<tr>
<th>€ ’000</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit (loss) before tax</td>
<td>–21,003</td>
<td>–20,536</td>
</tr>
<tr>
<td>Expected tax expense (+)/income (–)</td>
<td>–6,343</td>
<td>–6,198</td>
</tr>
<tr>
<td>Tax effects on not tax-deductible expenses or expenses recognized in equity and on not tax-effective income</td>
<td>–168</td>
<td>–434</td>
</tr>
<tr>
<td>Change of deferred tax allowances</td>
<td>6,511</td>
<td>6,632</td>
</tr>
<tr>
<td>Actual tax expense (+)/income (–)</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

The reconciliation is based on a combined income tax rate of 30.2%. This takes into account corporate tax, the solidarity surcharge and trade tax.

(9) EARNINGS PER SHARE (EPS)
Basic earnings per share is calculated by dividing the total comprehensive income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is calculated by dividing the total comprehensive income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would arise from the conversion of all dilutive potential ordinary shares into ordinary shares.
There was no dilution effect within the meaning of IAS 33.41 ff for issued share options and convertible bonds in prior years or fiscal year 2016.

(10) NOTES TO THE STATEMENT OF CASH FLOWS

The statement of cash flows shows how MOLOGEN’s liquid funds changed as a result of cash inflows and outflows over the course of the financial year. In accordance with IAS 7, a distinction is made between cash flows from operating, investing and financing activities. MOLOGEN reports cash payment for interest and income tax separately in the cash flow statement, in line with reporting in the financial statements under commercial law. Separate reporting is consistent with IAS 7.

Please refer to comments in Sections C “liquid funds” and E “cash and cash equivalents” of the present Notes for details on the division of liquid funds into cash and cash equivalents and funds with a term of more than three months.

Income tax amounting to €0.03 thousand was paid in fiscal year 2016 (previous year: €1 thousand). MOLOGEN received an income tax refund of €0 thousand in fiscal year 2016 (previous year: €13 thousand).

In fiscal year 2016, interest income totaling €0.1 thousand (previous year: €3 thousand) was recorded. Interest in the amount of €18 thousand was paid (previous year: €0.5 thousand).

Cash and cash equivalents comprises cash in hand, credit balances on current accounts and deposits as well as call money which is invested for a maximum of three months.

E. NOTES TO THE STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2016

ASSETS

NON-CURRENT ASSETS

(11) PROPERTY, PLANT AND EQUIPMENT

In the financial year, the net value of property, plant and equipment declined by €214 thousand, from €239 thousand in the prior year to a current level of €25 thousand. Ordinary and unscheduled depreciation and amortization was counterbalanced by investments amounting to €23 thousand (previous year: €87 thousand).

In fiscal year 2016, unscheduled depreciation and amortization totaled €153 thousand (previous year: €0 thousand). On account of the Next Level strategy change that was announced in the first half year of 2016, property, plant and equipment (such as laboratory instruments and equipment) no longer required was written off on an unscheduled basis.

The development of property, plant and equipment is part of the statement of changes in fixed assets presented on page 72.

(12) INTANGIBLE ASSETS

In the financial year, the value of intangible assets in the statement of financial position decreased by €138 thousand to €37 thousand (previous year: €175 thousand). Intangible assets includes software (book value: €37 thousand; previous year: €27 thousand; previous year: recognized under other rights; book value: €148 thousand).

In fiscal year 2016, unscheduled amortization on intangible assets amounted to €151 thousand (previous year: €0 thousand). On account of the Next Level strategy change that was announced in the first half year of 2016, no longer required intangible assets (such as other rights and software) were written off on an unscheduled basis.

Ordinary depreciation and amortization was counterbalanced by investments amounting to €34 thousand (previous year: €8 thousand).

The development of intangible assets is part of the statement of changes in fixed assets presented on page 72.

RESEARCH AND DEVELOPMENT

The resources available to the company are primarily used directly on research and development projects. In fiscal year 2016, expenses for this area amounted to €17.0 million (previous year: €16.8 million). As in the prior year, no development costs subject to mandatory capitalization as defined in IAS 38 were incurred.
(13) OTHER NON-CURRENT ASSETS

Other non-current assets amounted to €0 thousand (previous year: €0 thousand). In fiscal year 2016, no allowances were recognized for other non-current assets (previous year: €0 thousand).

CURRENT ASSETS

(14) CASH AND CASH EQUIVALENTS

In principle, liquid funds consist of cash reserves and bank balances with a remaining term of less than three months. Current bank balances yield variable rates of interest. As of December 31, 2016, there were no fixed term deposits with a term of more than three months (previous year: €0 thousand). As of the reporting date, liquid funds amounted to €20,520 thousand (previous year: €24,592 thousand). This is calculated on the nominal value of the reserves in euro as well as the value of a foreign currency account converted based on the average spot exchange rate on December 31, 2016.

(15) TRADE RECEIVABLES

Trade receivables are not interest-bearing and always have a term to maturity of less than one year as of the reporting date. They are usually due within 14 days and are reported at amortized cost.

As of December 31, 2016, trade receivables amounted to €33 thousand (previous year: €0 thousand).

€'000  Overdue, but not impaired (portions of) receivables

<table>
<thead>
<tr>
<th></th>
<th>Neither overdue nor impaired</th>
<th>&lt; 30 days</th>
<th>30–90 days</th>
<th>90–365 days</th>
<th>&gt; 365 days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 31, 2016</td>
<td>33</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Dec 31, 2015</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

As of December 31, 2016, no allowances were recognized for trade receivables (previous year: €0 thousand).

In fiscal year 2016, no allowances were recognized for trade receivables (previous year: €0 thousand).

The development of impairments on trade receivables is part of the table under Section H entitled “Development of impairments on financial instruments”.

(16) INVENTORIES

Inventories consist of goods totaling €13 thousand (previous year: €28 thousand). Inventories are not subject to any disposition or pledging restrictions.

(17) OTHER CURRENT ASSETS AND INCOME TAX RECEIVABLES

Income tax receivables include corporation tax reimbursements (including solidarity surcharge) for fiscal years 2015 and 2016.

The amounts referred to under the tax reimbursements from VAT comprise receivables and liabilities to the same authority and may be offset in accordance with IAS 12.71.

Fixed-term deposits amounting to €13 thousand (previous year: €13 thousand) are pledged and serve as a security for a lease guarantee.

Other receivables comprise advance payments of €316 thousand for services in connection with the conducting of clinical trials (previous year: €574 thousand). In the reference period, the item of other receivables included a prepayment of €25 thousand, which was made to the MOLOGEN Foundation Institute Molecular Biology and Bioinformatics as part of the cooperation with the Free University of Berlin.

No allowances were recognized under other current assets (previous year: €0 thousand).

No other receivables were derecognized (previous year: €0 thousand).

The development of impairments on other current assets is shown under Section H.

EQUITY AND LIABILITIES

LIABILITIES

(18) NON-CURRENT LIABILITIES

Non-current liabilities include liabilities to third parties from the issuance of a convertible bond and deferred income.

CONVERTIBLE BOND

In fiscal year 2016, the company issued a convertible bond, which was divided into a financial liability and an equity component on account of the hybrid structure of the financial instrument.
With resolutions on September 23, 2016 and November 22, 2016, the Executive Board of MOLOGEN decided, with the approval of the Supervisory Board, to issue a convertible bond pursuant to the resolution of the Annual General Meeting of MOLOGEN on August 13, 2014 (conditional capital 2014-1).

In fiscal year 2016, 254 bonds of €10.000 each were issued as part of a convertible bond (2016/24) with a total nominal value of €2.54 million.

The convertible bond 2016/24 was issued to Global Derivate Trading GmbH (bond holder) on November 22, 2016. It has a maturity of eight years. On the final maturity date, October 29, 2024, the convertible bond will be repaid at its nominal value plus any accrued but unpaid interest on the nominal value up to (but not including) the final repayment date, provided that the respective convertible bond has not been prematurely repaid, converted, redeemed or devalued.

An interest rate of 6% per annum will be paid on the nominal value of the convertible bond from (and including) November 25, 2016. Interest is payable, retrospectively, on a quarterly basis on March 31, June 30, September 30 and December 31 of each year and for the first time on December 31, 2016, for the period from the issue date to December 31, 2016.

MOLOGEN (bond debtor) grants the bond holder the right, at any time during the exercise period (starting on and including November 25, 2016), to convert any bonds issued as part of the convertible bond in their entirety, not part thereof, into a number of underlying shares per convertible bond that corresponds to the conversion ratio. The conversion ratio is calculated by dividing the nominal value of the convertible bond by the respective applicable conversion price. The initial conversion price was set at €1.50 and the initial conversion ratio is 6.666. Accordingly, a maximum of 1,693,333 shares can result from conversion.

Conversion rights may not be exercised during any non-exercise period. Each of the following periods are non-exercise periods:

<table>
<thead>
<tr>
<th>Period</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 On the occasion of the Annual General Meeting of the bond debtor,</td>
<td>during a period which begins on the eighth day before (and including) the last day of registration for the Annual General Meeting and ends on the first working day after the Annual General Meeting (each excluded);</td>
</tr>
<tr>
<td>1 During a period of seven days before the end of the financial year;</td>
<td></td>
</tr>
<tr>
<td>1 During a period that starts with (and includes) the earlier of the two</td>
<td>days on which the bond debtor publishes a rights offering in the Federal Gazette for its shareholders to buy shares, option rights for own shares, bonds with option or conversion rights or obligations, profit-sharing bonds, profit-sharing certificates or a similar offer (including, but not limited to, offers in relation to spin-offs (Section 123 Para. 2 of the German Transformation Act [UmwG]) or publishes an ad hoc or similar release with specific details of the upcoming subscription offer (including subscription ratio and the expected start of the subscription period), and ends on (and including) the last day of the period set for exercising subscription rights.</td>
</tr>
</tbody>
</table>

The bond holder has the right to call due all claims on any bonds they hold by providing notice of termination and to demand the repayment of the nominal value plus any accrued interest due up to (but excluding) the effective date of repayment. The cancellation conditions include inter alia, late payments by the debtor of the convertible bond, the initiation of an insolvency proceeding and other breaches of duty in the context of the issue.

<table>
<thead>
<tr>
<th>€’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross proceeds from the issuance of a convertible bond in fiscal year 2016</td>
</tr>
<tr>
<td>of which liability component of the convertible bond at date of issue</td>
</tr>
<tr>
<td>of which equity component of the convertible bond at date of issue</td>
</tr>
<tr>
<td>Expenses for the liability component in connection with the issuance of the convertible bond</td>
</tr>
<tr>
<td>Expenses for the equity component in connection with the issuance of the convertible bond</td>
</tr>
<tr>
<td>Interest expense</td>
</tr>
<tr>
<td>Conversion of bonds in fiscal year 2016</td>
</tr>
<tr>
<td>Liability component of convertible bond as of Dec 31, 2016</td>
</tr>
</tbody>
</table>

For further information on ascertaining the fair value of the equity component, is referred to Section (21) of these Notes.

Deferred income

The deferred income of €2 thousand (previous year: €6 thousand) relates to government grants for assets.

(19) CURRENT LIABILITIES

Trade payables are not interest-bearing and usually have a maturity of 30 days. Other current liabilities are not interest-bearing and have a maturity of up to 12 months.

Composition of current liabilities:

<table>
<thead>
<tr>
<th>€’000</th>
<th>Dec 31, 2016</th>
<th>Dec 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade payables</td>
<td>6,530</td>
<td>6,390</td>
</tr>
<tr>
<td>Liabilities from income and church tax</td>
<td>144</td>
<td>150</td>
</tr>
<tr>
<td>Liabilities to banks</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>727</td>
<td>338</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7,404</strong></td>
<td><strong>6,886</strong></td>
</tr>
</tbody>
</table>
SHAREHOLDERS’ EQUITY

The composition of shareholders’ equity and the development of its components are presented in the statement of changes in equity.

(20) ISSUED CAPITAL

MOLOGEN's share capital of €33,947,251, which is divided into 33,947,251 no-par bearer shares, each with a notional share of €1.00 in the share capital, is reported as issued capital.

MOLOGEN implemented the following share capital-related measures in fiscal year 2016: On October 25, 2016, a capital increase against cash contributions was recorded in the Commercial Register relevant to the company. From the authorized capital, a total of 11,315,750 shares were placed with existing shareholders at a price of €1.20 per new share by way of indirect subscription rights and with qualified investors as part of an international private placement. Gross proceeds from the issue totaled around €13.6 million. MOLOGEN's share capital increased by €11,315,750, from €22,631,501 to €33,947,251.

With entry of the capital increase in the Commercial Register relevant to the company on October 25, 2016, the existing authorized capital totaling €11,315,750 as of the prior year's reporting date was fully utilized.

AUTHORIZED AND CONDITIONAL CAPITAL

The company has the following authorized and conditional capital as of December 31, 2016:

<table>
<thead>
<tr>
<th></th>
<th>Dec 31, 2016</th>
<th>Dec 31, 2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorized capital</td>
<td>0</td>
<td>11,315,750</td>
<td>-11,315,750</td>
</tr>
<tr>
<td>Conditional capital 2010</td>
<td>610,151</td>
<td>610,151</td>
<td>0</td>
</tr>
<tr>
<td>Conditional capital 2011</td>
<td>238,393</td>
<td>238,393</td>
<td>0</td>
</tr>
<tr>
<td>Conditional capital 2012</td>
<td>209,234</td>
<td>209,234</td>
<td>0</td>
</tr>
<tr>
<td>Conditional capital 2013-1</td>
<td>328,672</td>
<td>328,672</td>
<td>0</td>
</tr>
<tr>
<td>Conditional capital 2014-1</td>
<td>6,789,451</td>
<td>6,789,451</td>
<td>0</td>
</tr>
<tr>
<td>Conditional capital 2014-2</td>
<td>176,051</td>
<td>176,051</td>
<td>0</td>
</tr>
<tr>
<td>Conditional capital 2015</td>
<td>700,649</td>
<td>700,649</td>
<td>0</td>
</tr>
</tbody>
</table>

Conditional capitals 2010, 2011 and 2012 are used to grant convertible bonds and/or subscription rights without issue of bonds to Executive Board members and company employees based on the resolutions by the Annual General Meetings of June 7, 2010, June 7, 2011 and July 19, 2012. The conditional capital increase will only be carried out if the holders of the convertible bonds and/or options issued by the company exercise their conversion or subscription rights. If issued through the exercise of conversion or subscription rights before the start of the company's Annual General Meeting, the new shares participate in the profits of the company from the start of the prior financial year, or otherwise from the start of the financial year in which they were issued through the exercise of conversion or subscription rights.

The conditional capital 2014-1 is to be used for granting no-par bearer shares to the holders or creditors of convertible bonds, option bonds, profit-sharing certificates and/or profit-sharing bonds (or a combination of these instruments) which are issued by the company or group companies under the management of the company as authorized pursuant to the resolution of the Annual General Meeting on August 13, 2014 under agenda item 7b) and which grant conversion or option rights to new no-par bearer shares of the company and/or determine a conversion obligation or preemptive tender right and to the extent that the issuance of shares is against contributions in cash. The conditional capital increase shall only be carried out to the extent that holders or creditors exercise their option or conversion rights, or holders or creditors with a conversion obligation meet their conversion obligations, or servicing of shares occurs due to substitution rights of a company, or no own shares or new shares issued under authorized capital are used for this purpose.

If issued through the exercise of conversion or subscription rights before the start of the company's Annual General Meeting, the new shares participate in the profits from the start of the prior financial year, or otherwise from the start of the fiscal year in which they were issued through the exercise of conversion or subscription rights. With the Supervisory Board's consent, the Executive Board is thereby authorized to determine the further details of the conditional capital increase.

Conditional capitals 2013-1, 2014-2 and 2015 are used exclusively to grant rights to the holders of share options (Executive Board members and company employees) based on the resolutions by the Annual General Meetings of July 16, 2013, August 13, 2014 and July 29, 2015. The conditional capital increase will only be carried out if the holders of the share rights issued by the company exercise their subscription rights and the company does not fulfill the share options by supplying proprietary shares or by cash payment. If issued through the exercise of subscription rights before the start of the company's Annual General Meeting, the new shares participate in the profits of the company from the start of the prior financial year, or otherwise from the start of the fiscal year in which they were issued through the exercise of conversion or subscription rights.

(21) CAPITAL RESERVES

In the capital reserves, equity components are reported that are received from external sources via the subscribed capital or result from the issuance of the convertible bond, as well as a withdrawal in the amount of €6,668 thousand carried out in fiscal year 2002, which was offset with the accumulated deficit.

In fiscal year 2016, capital reserves increased by €2,263 thousand as a result of the capital increase from authorized capital. In accordance with IAS 32.37, the costs accruing for capital procurement in the amount of €873 thousand (previous year: €2,082 thousand) were reported in capital reserves, which thereby increased by €1,390 thousand overall.

Conditional capitals 2010, 2011 and 2012 are used to grant convertible bonds and/or subscription rights without issue of bonds to Executive Board members and company employees based on the resolutions by the Annual General Meetings of June 7, 2010, June 7, 2011 and July 19, 2012. The conditional capital increase will only be carried out if the holders of the convertible bonds and/or options issued by the company exercise their conversion or subscription rights. If issued through the exercise of conversion or subscription rights before the start of the company's Annual General Meeting, the new shares participate in the profits of the company from the start of the prior financial year, or otherwise from the start of the financial year in which they were issued through the exercise of conversion or subscription rights.

The conditional capital 2014-1 is to be used for granting no-par bearer shares to the holders or creditors of convertible bonds, option bonds, profit-sharing certificates and/or profit-sharing bonds (or a combination of these instruments) which are issued by the company or group companies under the management of the company as authorized pursuant to the resolution of the Annual General Meeting on August 13, 2014 under agenda item 7b) and which grant conversion or option rights to new no-par bearer shares of the company and/or determine a conversion obligation or preemptive tender right and to the extent that the issuance of shares is against contributions in cash. The conditional capital increase shall only be carried out to the extent that holders or creditors exercise their option or conversion rights, or holders or creditors with a conversion obligation meet their conversion obligations, or servicing of shares occurs due to substitution rights of a company, or no own shares or new shares issued under authorized capital are used for this purpose.

If issued through the exercise of conversion or subscription rights before the start of the company's Annual General Meeting, the new shares participate in the profits from the start of the prior financial year, or otherwise from the start of the fiscal year in which they were issued through the exercise of conversion or subscription rights. With the Supervisory Board's consent, the Executive Board is thereby authorized to determine the further details of the conditional capital increase.

Conditional capitals 2013-1, 2014-2 and 2015 are used exclusively to grant rights to the holders of share options (Executive Board members and company employees) based on the resolutions by the Annual General Meetings of July 16, 2013, August 13, 2014 and July 29, 2015. The conditional capital increase will only be carried out if the holders of the share rights issued by the company exercise their subscription rights and the company does not fulfill the share options by supplying proprietary shares or by cash payment. If issued through the exercise of subscription rights before the start of the company's Annual General Meeting, the new shares participate in the profits of the company from the start of the prior financial year, or otherwise from the start of the fiscal year in which they were issued through the exercise of conversion or subscription rights. With the Supervisory Board's consent, the Executive Board is thereby authorized to determine the further details of the conditional capital increase.

Conditional capitals 2010, 2011 and 2012 are used to grant convertible bonds and/or subscription rights without issue of bonds to Executive Board members and company employees based on the resolutions by the Annual General Meetings of June 7, 2010, June 7, 2011 and July 19, 2012. The conditional capital increase will only be carried out if the holders of the convertible bonds and/or options issued by the company exercise their conversion or subscription rights. If issued through the exercise of conversion or subscription rights before the start of the company's Annual General Meeting, the new shares participate in the profits of the company from the start of the prior financial year, or otherwise from the start of the financial year in which they were issued through the exercise of conversion or subscription rights.
The convertible bond described in Section E (18) of these Notes was divided into a financial liability and an equity component on account of the hybrid structure of the financial instrument. The equity component in the amount of €422 thousand – arising from the difference between the issue amount of the bond with conversion rights and the estimated issue amount/market price of the same bond without conversion rights – was transferred to the capital reserves. The same procedure was followed in the financial statements under commercial law in accordance with Section 272 Para. 2 No. 2 of the HGB. The proportional cost incurred for the equity component of the convertible bond in the amount of €5 thousand (previous year: €0 thousand) was taken into account in the capital reserves, which consequently increased by a total of €417 thousand. The conversion premium was calculated using the Black-Scholes model and tested for plausibility on the basis of market observations.

The Black-Scholes model was based on the following parameters:

- Expected volatility (%): 40.00
- Risk-free interest rate (%): 1.00
- Anticipated life time of the option (years): 4.00
- Predicted share price on date of issuance (€): 1.31

The application of IFRS 2 (Share-based Payment) resulted in the transfer of €215 thousand to the capital reserves (previous year: €534 thousand). Please refer to Section (4) of the present Notes.

### CAPITAL RESERVES

<table>
<thead>
<tr>
<th></th>
<th>Dec 31, 2016</th>
<th>Dec 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital reserves</td>
<td>105,273</td>
<td>103,010</td>
</tr>
<tr>
<td>Capital reserve from the issuance of bonds with conversion and/or option rights</td>
<td>422</td>
<td>0</td>
</tr>
<tr>
<td>Employee compensation in equity instruments</td>
<td>7,122</td>
<td>6,907</td>
</tr>
<tr>
<td>Costs of equity procurement</td>
<td>–9,153</td>
<td>–8,275</td>
</tr>
<tr>
<td></td>
<td><strong>103,664</strong></td>
<td><strong>101,642</strong></td>
</tr>
</tbody>
</table>

### F. NOTES ON THE EMPLOYEE PARTICIPATION PROGRAMS

The company has set up several share-based employee participation programs. Employees have received share options, which entitle them to buy MOLOGEN shares at a predetermined price subject to certain conditions. MOLOGEN will issue the required shares by means of capital increases and has various conditional capital items available for this purpose.

### CONTRACTUAL TERMS AND CONDITIONS OF THE SHARE OPTION PROGRAMS (SOP)

The following provides a summary of the contractual terms and conditions on the basis of which beneficiaries may exercise the share options granted.

#### SHARE OPTION

Each share option grants the beneficiary the right to subscribe to a bearer share with the nominal par value of €1.00 each.

#### BENEFICIARIES

Members of the Executive Board and employees of the company.

#### DURATION

Seven years (SOP 2010, SOP 2011, SOP 2012, SOP 2013, SOP 2014 and SOP 2015) from the date of allocation.

#### VESTING PERIOD

Four years from the time of issue or granting to the beneficiary (SOP 2010, SOP 2011, SOP 2012, SOP 2013, SOP 2014 and SOP 2015).

#### EXERCISE PERIODS

On expiry of the vesting periods, share options may only be exercised within a period of four weeks after publication of the latest quarterly, half-year or respective interim report of the company; otherwise, within a period of four weeks after publication of the annual financial statements and also within a period of four weeks after the Annual General Meeting of the company.

Furthermore, for share options that were issued under SOP 2015, the company can in individual cases define special exercise periods. The company will inform beneficiaries of the start and end of the exercise periods in a suitable manner (for example, by memo, written notification or data transmission). However, there is no legal right to such a notification; no claims can be made whatsoever if such a notification is not given or is inaccurate.
**STRIKE PRICE**

Corresponds to the average stock market price for shares (arithmetic mean of the closing prices (i) in the regulated market (SOP 2010) or (ii) XETRA trading or a comparable successor system (SOP 2011, SOP 2012, SOP 2013, SOP 2014 and SOP 2015) on the Frankfurt Stock Exchange or after reconfiguration of the market segments in the trading segment of the stock exchange in which the company's shares are traded) in the 60 trading days (SOP 2012, SOP 2013, SOP 2014 and SOP 2015: 30 trading days) prior to the resolution of the Executive Board (in the case of share options issued to the Executive Board: the Supervisory Board) concerning the respective allocation.

**EXERCISE PRICE**

Corresponds to the strike price.

**PERFORMANCE TARGET (SOP 2010)**

The exercise of share options is only possible if the average share price (arithmetic mean of the closing prices in the regulated market of the Frankfurt Stock Exchange or, in the case of reconfiguration of the market segments in the trading segment of the stock exchange in which the company’s shares are traded) in the last ten trading days before the date of exercise has increased compared with the strike price as follows:

Exercise in the fifth year after issue/allocation is only possible if the share price (arithmetic mean of the closing prices in the regulated market of the Frankfurt Stock Exchange or, in the case of reconfiguration of the market segments in the trading segment of the stock exchange in which the company’s shares are traded) in the last ten trading days before the date of exercise has increased by at least 16% compared with the strike price (performance target). The performance target is 19% above the strike price for the sixth year and 22% for the seventh year.

**PERFORMANCE TARGET (SOP 2011)**

The exercise of share options is only possible if the average share price (arithmetic mean of the closing prices in XETRA trading or a comparable successor system of the Frankfurt Stock Exchange or, in the case of reconfiguration of the market segments in the trading segment of the stock exchange in which the company’s shares are traded) in the last ten trading days before the date of exercise has increased by at least 5% for each full year that has passed since issue/allocation.

**PERFORMANCE TARGET (SOP 2012)**

The exercise of share options is only possible if the average share price (arithmetic mean of the closing prices in XETRA trading or a comparable successor system of the Frankfurt Stock Exchange or, in the case of reconfiguration of the market segments in the trading segment of the stock exchange in which the company’s shares are traded) in the last ten trading days before the date of exercise has increased compared with the strike price as follows: by at least 30% above the strike price in the fifth year after issue/allocation, by at least 35% in the sixth year and by at least 40% in the seventh year.

**PERFORMANCE TARGET (SOP 2013, SOP 2014 AND SOP 2015)**

The share options may only be exercised if and insofar as the following performance targets have been achieved:

The first performance target (absolute price threshold) is deemed to have been achieved if, within the exercise of employee stock options, the average stock exchange price of the company’s shares (arithmetic mean of the closing prices in XETRA trading or a comparable successor system of the Frankfurt Stock Exchange or, in the case of reconfiguration of the market segments in the trading segment of the stock exchange in which the company’s shares are traded) in the last ten trading days before the date of exercise of the employee stock options exceeds the exercise price.

The second performance target (relative price threshold) is deemed to have been achieved if the share price of the company has outperformed the DAXsubsector Biotechnology (Performance) of the Frankfurt Stock Exchange.

For the required comparative calculation, the following respective reference values (100%) are defined for (i) the relevant share price and (ii) the arithmetic mean of the daily closing prices of the DAXsubsector Biotechnology (Performance) of the Frankfurt Stock Exchange on the last 30 trading days before the resolution of the Executive Board (in the case of issue of employee options to the Executive Board: the Supervisory Board) concerning the respective allocation of the employee stock options. On this basis, the market price of the company’s shares (arithmetic mean of the closing prices in XETRA trading or a comparable successor system of the Frankfurt Stock Exchange or, in the case of reconfiguration of the market segments in the trading segment of the stock exchange in which the company’s shares are traded) between the date of allocation of employee stock options and the date of the respective exercise based on the relevant reference values must have outperformed the DAXsubsector Biotechnology (Performance) in percentage terms. The preceding comparative calculation is to be performed for each issue of share options with reference values adjusted accordingly.

If the DAXsubsector Biotechnology (Performance) of the Frankfurt Stock Exchange is terminated or significantly altered in terms of its composition during the term of the employee option program or the employee options which have been issued under it, it shall be replaced by another index, the composition of which comes closest to the DAXsubsector
Biotechnology (Performance) of the Frankfurt Stock Exchange in its previous composition; if no such index exists, a new benchmark index is calculated by a bank commissioned by the company with as many individual prices as possible in the previous composition, so that it comes as close as possible to the DAXsubsector Biotechnology (Performance) of the Frankfurt Stock Exchange.

**ACCOUNTING**

The fair value of the share options granted is determined as of the date of granting. The conditions under which the options were granted are taken into account. The fair values of share option programs 2010a, 2010b, 2011, 2012a and 2012b were identified using a Monte Carlo simulation model. The fair values of share option programs 2013, 2014 and 2015 were determined using binomial distribution. Within a share option program, the total available share options may be distributed in several tranches and granted at different times. In this case, the individual tranches are referred to as “a”, “b” and “c”.

In the reporting period, options under share option program 2015 were issued to employees and members of the Executive Board.

In contrast to share options issued in the past, the discount for staff turnover of 11% since issue was taken into account in the calculation of personnel expenses resulting from the share options issued under the share option program 2014 in fiscal year 2015 and from the share option program 2015 in fiscal year 2016.

This was the result of past staff turnover discovered in connection with a review of service conditions for employees.

The reported cumulative personnel expenses resulting from share options issued in the past were reviewed accordingly (SOP 2011, SOP 2012, SOP 2013). No adjustments were required, as actual turnover was taken into account accordingly up to the reporting date.

The following table shows the underlying parameters of the valuation:

<table>
<thead>
<tr>
<th>Parameter</th>
<th>2010a</th>
<th>2010b</th>
<th>2011</th>
<th>2012a</th>
<th>2012b</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend yield (%)</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Expected volatility (%)</td>
<td>51.07</td>
<td>47.67</td>
<td>44.00</td>
<td>41.41</td>
<td>40.70</td>
</tr>
<tr>
<td>Risk-free interest rate (%)</td>
<td>1.70</td>
<td>2.48</td>
<td>1.44</td>
<td>0.74</td>
<td>0.53</td>
</tr>
<tr>
<td>Anticipated life time of the option (years)</td>
<td>5.50</td>
<td>5.50</td>
<td>5.50</td>
<td>5.50</td>
<td>5.50</td>
</tr>
<tr>
<td>Share price on date of issuance (€)</td>
<td>8.55</td>
<td>8.49</td>
<td>7.13</td>
<td>12.95</td>
<td>14.15</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Parameter</th>
<th>2013a</th>
<th>2013b</th>
<th>2013c</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend yield (%)</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Expected volatility (%)</td>
<td>39.91</td>
<td>40.75</td>
<td>42.09</td>
<td>43.98</td>
<td>48.25</td>
</tr>
<tr>
<td>Risk-free interest rate (%)</td>
<td>0.86</td>
<td>0.82</td>
<td>0.82</td>
<td>0.20</td>
<td>0.47</td>
</tr>
<tr>
<td>Anticipated life time of the option (years)</td>
<td>5.50</td>
<td>5.50</td>
<td>5.50</td>
<td>5.50</td>
<td>5.5</td>
</tr>
<tr>
<td>Share price on date of issuance (€)</td>
<td>12.57</td>
<td>10.80</td>
<td>7.75</td>
<td>4.95</td>
<td>3.32</td>
</tr>
<tr>
<td>Expected volatility of the DAXsubsector Biotechnology index (%)</td>
<td>20.07</td>
<td>18.58</td>
<td>18.45</td>
<td>19.84</td>
<td>21.70</td>
</tr>
</tbody>
</table>

The respective expected term of the share options was set based on past experience. These assumptions do not necessarily correspond to the actual exercise behavior of the beneficiaries.

The volatility taken into account is based on the assumption that historical volatilities can be used to predict future trends. This is based on the historic volatility of a period corresponding to the anticipated term of the share options. The volatility that actually occurs may therefore differ from the assumptions.

Risk-free interest rates are based on estimates of the interest rate structure in the bond market published by the German Federal Bank (Deutsche Bundesbank). The interest rate chosen is the one that has an identical remaining term or the closest maturity date.

The company does not pay out dividends to its shareholders at present. No change in this dividend policy has been assumed during the term of the share options. This does not necessarily correspond to later actual dividend payments.
H. NOTES ON THE TYPE AND MANAGEMENT OF FINANCIAL RISKS

1. FINANCIAL RISK MANAGEMENT

MOLOGEN has a risk management system for the identification, measurement and control of risks which may arise as a result of the existing financial instruments. The risk positions arise from the completed and scheduled cash inflows and outflows, whereby these risks may occur in the form of default, liquidity and foreign exchange rate risks. Interest rate risks (excluding in connection with the investment of liquid funds) and other price risks do not exist, because the main financial instruments used by the company include trade receivables, trade payables, liabilities from a fixed interest convertible bond and cash. The primary objective of capital management is to maintain the solvency of the company. For details, please refer to the Management Report (“Risk report” section). The secondary objective is the use of investment opportunities to achieve interest income and to avoid negative interest rates, with the exclusive use of conservative short-term products. Key indicators for setting the primary objective are the debt ratio and the ratio of subscribed capital to total shareholders’ equity.

The primary objective of capital management is to maintain the solvency of the company. For details, please refer to the Management Report (“Risk report” section). The secondary objective is the use of investment opportunities to achieve interest income and to avoid negative interest rates, with the exclusive use of conservative short-term products.

2. RISKS ARISING FROM FINANCIAL INSTRUMENTS

MOLOGEN may be subject to the following risks with regard to assets, liabilities and planned transactions:

DEVELOPMENTS DURING THE FINANCIAL YEAR

Share options are issued to MOLOGEN employees by the Executive Board of MOLOGEN. The Supervisory Board issues share options to members of the Executive Board of MOLOGEN. In the current financial year, 295,350 share options have been issued to beneficiaries (previous year: 105,608). The share options were issued under share option program 2015 (SOP 2015). As of December 31, 2016, a total of 405,299 share options from SOP 2015 had not yet been allocated (previous year: 700,649). From other SOPs, 213,490 share options had not been allocated as of December 31, 2016 and the previous year’s reporting date.

The following table shows the number and weighted average exercise price (WAEP) as well as the development of the share options during the financial year.

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>WAEP per share option €</td>
<td>Share options Units</td>
</tr>
<tr>
<td>As of Jan 1</td>
<td>9.04</td>
<td>1,202,196</td>
</tr>
<tr>
<td>Granted</td>
<td>3.52</td>
<td>295,350</td>
</tr>
<tr>
<td>Forfeited</td>
<td>8.56</td>
<td>97,238</td>
</tr>
<tr>
<td>Exercised</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Expired</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>As of Dec 31,</td>
<td>7.91</td>
<td>1,400,308</td>
</tr>
<tr>
<td>Exercisable as of Dec 31, a)</td>
<td>8.86</td>
<td>897,958</td>
</tr>
</tbody>
</table>

a) The weighted average fair value of share options granted in the financial year amounted to €1.07 per option (previous year: €1.67).

The weighted average remaining contractual duration of the share options outstanding as of December 31, 2016 was 2.86 years (December 31, 2015: 3.08 years). The exercise prices for the options outstanding at the end of the reporting period ranged between €3.52 and €13.91 (previous year: €4.99 and €13.91).

G. OTHER FINANCIAL LIABILITIES AND CONTINGENT LIABILITIES

Other financial liabilities resulting from lease agreements total €111 thousand for fiscal year 2017 and €0 thousand beyond 2017. MOLOGEN has other financial liabilities requiring disclosure in the amount of €8,563 thousand for 2017 and of €8,702 thousand beyond 2017.

There were no contingent liabilities as defined in IAS 37 as of December 31, 2016.

2. RISKS ARISING FROM FINANCIAL INSTRUMENTS

MOLOGEN may be subject to the following risks with regard to assets, liabilities and planned transactions:

DEFAULT RISKS

MOLOGEN is exposed to default risk arising from its operating activities. Accounts receivable are monitored on an ongoing basis. Default risks are taken into account by setting up specific provisions (see Section E (15)). No general charges were made.

The company has not taken up any loans or issued any financial guarantees.
LIQUIDITY RISKS

The company monitors the risk of a possible liquidity bottleneck on an ongoing basis. It monitors the maturities of financial assets (e.g. receivables) and liabilities as well as expected cash flow from operating activity. Should it become necessary, certain cost-intensive activities and projects can be temporarily discontinued in order to reduce the outflow of funds. In particular, this is ensured by concluding service contracts that can be canceled at short notice for the IMPALA and IMPULSE clinical trials which started in fiscal year 2014.

MARKET RISKS

MOLOGEN is not exposed or only has limited exposure to the following market risks:

Interest rate risks

The risk of fluctuations in market interest rates does not generally exist as the company has no current or non-current financial assets and liabilities which are subject to variable interest rates. The convertible bond which was issued in fiscal year 2016 offers a fixed interest rate of 6.0% per annum over the whole term of eight years.

In principle, cash and cash equivalents which are not required are invested as fixed-term deposits for a period of three months at the current market interest rate in each case. Changes in interest rate levels therefore affect the amount of interest income.

However, MOLOGEN is exposed to the risk of earning negative interest on credit balances at present. In the event that MOLOGEN is not able to invest liquid funds in short-term investments without negative interest rates and if the level of interest further declines by around 1.0% per annum, this would lead to an additional interest expense in the amount of approximately €100 thousand for fiscal year 2017.

Exchange rate risks

MOLOGEN currently only employs financial instruments held in foreign currencies to a very limited extent. The exchange rate risk is therefore classified as very low.

Other price risks

There are no other price risks.

3. CATEGORIES OF FINANCIAL INSTRUMENTS

<table>
<thead>
<tr>
<th>€’000</th>
<th>Dec 31, 2016</th>
<th>Dec 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans and receivables valued at amortized costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade receivables</td>
<td>33</td>
<td>0</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>20,520</td>
<td>24,592</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>734</td>
<td>820</td>
</tr>
<tr>
<td><strong>Financial liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valued at amortized costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities to banks</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Trade payables</td>
<td>6,530</td>
<td>6,390</td>
</tr>
<tr>
<td>Convertible bond (liability component)</td>
<td>2,119</td>
<td>0</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>871</td>
<td>488</td>
</tr>
</tbody>
</table>

The book values of the financial assets and financial liabilities correspond to the fair values.

The valuation of MOLOGEN's financial assets and financial liabilities is explained in Section C “Accounting and valuation methods”.

No new classifications or reclassifications were carried out in the financial year under review or the reference period.

New classifications were carried out in the financial year under review, but not for the reference period.

The convertible bond is a compound financial instrument, which comprised financial liabilities in the amount of €2,119 thousand and an equity component totaling €417 thousand (following deduction of costs of capital procurement) as of the reporting date. Further details on the convertible bond can be found under Section E “Notes to the statement of financial position as of December 31, 2016”, liabilities, convertible bond.

In fiscal year 2016, losses of €1 thousand were reported resulting from foreign currency conversion (previous year: gains of €2 thousand).
I. INFORMATION ON AFFILIATED PERSONS AND COMPANIES

EXECUTIVE BOARD

1. EXECUTIVE BOARD MEMBERS OF MOLOGEN IN FISCAL YEAR 2016

Dr. Mariola Söhngen, Chief Executive Officer, Berlin, Germany  
(since November 1, 2015; appointed until October 31, 2018)
Member of the following other statutorily mandated supervisory boards and comparable domestic and foreign supervisory committees of business enterprises: Vita 34 AG, Leipzig (Supervisory Board member)

Walter Miller, Chief Financial Officer, Berlin, Germany  
(since April 1, 2016; appointed until March 31, 2019)
Not a member of any other statutorily mandated supervisory boards and comparable domestic and foreign supervisory committees of business enterprises

2. REMUNERATION STRUCTURE FOR THE EXECUTIVE BOARD

Fixed and performance-based remuneration components

Executive Board members receive a fixed remuneration component, which is paid out in monthly installments, and a performance-based remuneration component, which is only paid out when defined performance targets are met.

The following fixed and performance-based remuneration has been granted to members of the Executive Board:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed remuneration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dr. M. Söhngen</td>
<td>282</td>
<td>47</td>
</tr>
<tr>
<td>W. Miller</td>
<td>180</td>
<td>—</td>
</tr>
<tr>
<td>Dr. A. Zurlo</td>
<td>57</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>519</td>
<td>277</td>
</tr>
<tr>
<td>Performance-based remuneration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>364</td>
<td>50</td>
</tr>
<tr>
<td>2015</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>36</td>
<td>86</td>
</tr>
<tr>
<td>Other remuneration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2015</td>
<td>0</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total directly paid remuneration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>646</td>
<td>262</td>
</tr>
<tr>
<td>2015</td>
<td>97</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>87</td>
<td>266</td>
</tr>
</tbody>
</table>

Developments of impairments of financial instruments:

<table>
<thead>
<tr>
<th></th>
<th>'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>As of Jan 1, 2015</td>
<td>0</td>
</tr>
<tr>
<td>Increase/decrease of impairments recognized in the income statement</td>
<td>0</td>
</tr>
<tr>
<td>Use of reported impairments</td>
<td>0</td>
</tr>
<tr>
<td>As of Dec 31, 2015</td>
<td>0</td>
</tr>
<tr>
<td>Increase/decrease of impairments recognized in the income statement</td>
<td>0</td>
</tr>
<tr>
<td>Use of reported impairments</td>
<td>0</td>
</tr>
<tr>
<td>As of Dec 31, 2016</td>
<td>0</td>
</tr>
</tbody>
</table>
Compensation components with a long-term incentive effect

In previous years, members of the Executive Board were allocated share options as remuneration components with a long-term incentive effect. The share options issued were valued at fair value on the date of issue.

The following table shows the pro rata amounts of the fair values of remuneration components with a long-term incentive effect.

<table>
<thead>
<tr>
<th></th>
<th>Dr. M. Söhngen</th>
<th>W. Miller</th>
<th>Dr. A. Zurlo</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscription rights issued (units)</td>
<td>2016 50,000</td>
<td>2015 0</td>
<td>2016 30,000</td>
<td>2015 0</td>
</tr>
<tr>
<td>Fair value of subscription rights issued upon issuance (€ ’000)</td>
<td>2016 54</td>
<td>2016 32</td>
<td>2016 0</td>
<td>2015 0</td>
</tr>
<tr>
<td>Total personnel expenses from share options in each financial year (€ ’000)</td>
<td>2016 8</td>
<td>2016 5</td>
<td>2016 –32</td>
<td>2016 –19</td>
</tr>
</tbody>
</table>

By leaving the company, Dr. Alfredo Zurlo, member of the Executive Board up to March 31, 2016, forfeited a portion of the share options he had been issued.

No share options were exercised by members of the Executive Board in fiscal year 2016 or the previous year.

Payments in the event of early termination of the employment relationship

Dr. Mariola Söhngen and Walter Miller

In the event of the contract of employment being terminated for a reason that is not at the same time an important reason as defined in Section 626 of the German Civil Code (Bürgerliches Gesetzbuch; BGB), Executive Board members shall receive a severance payment which equates to the amount of the fixed compensation due in the period between the premature termination and the end of the term of the contract of employment, but subject to a maximum of twice the fixed annual remuneration (Dr. Mariola Söhngen: € 250 thousand, Walter Miller: € 200 thousand).

Should the appointment be terminated for an important reason as defined in Section 626 of the BGB, all rights to severance payments and management bonuses shall lapse entirely. If the appointment is terminated for any other reason, the annual bonus granted (Dr. Mariola Söhngen: € 300 thousand, Walter Miller: € 100 thousand) is reduced pro rata temporis for the relevant calendar year while bonus 2 (Dr. Mariola Söhngen: maximum of € 180 thousand; Walter Miller: maximum of € 60 thousand) is granted in full if the relevant targets are achieved.

In the event of a change-of-control (acquisition of at least 51% of the voting rights by a third party or several third parties acting together), the company and the two Executive Board members shall have the right to terminate contracts extraordinarily. Should this right be exercised, the Executive Board members’ service contracts provide for a severance payment, the amount of which depends on the date on which the appointment ends. Should the Executive Board members respectively resign before November 1, 2017 (Dr. Mariola Söhngen) and April 1, 2017 (Walter Miller), the Executive Board member shall receive a severance payment which equates to two years’ worth of compensation (all compensation components including management bonuses (Dr. Mariola Söhngen: maximum of € 480 thousand per annum; Walter Miller: maximum of € 160 thousand per annum.)). In the event of a respective resignation on or after November 1, 2017 (Dr. Mariola Söhngen) and on or after April 1, 2017 (Walter Miller), the severance payment will equate to 1.5 years’ worth of compensation (all compensation components including management bonuses). In addition to these severance payments, all share options already granted will be vested immediately.

In addition, a post-contractual non-competition agreement was concluded with the Executive Board members for a period of 12 months. The company undertakes to pay a waiting allowance for the duration of the post-contractual non-competition period. This waiting allowance amounts to one twelfth of the total basic pay per annum last received and of the last paid annual bonus for each month of the non-competition period.

Dr. Alfredo Zurlo

(member of the Executive Board up to March 31, 2016)

In the event of the contract of employment being terminated prematurely by the Supervisory Board or by mutual agreement, the Executive Board member would have received a severance payment which equates to two years’ worth of compensation (all compensation components including management bonuses (Dr. Mariola Söhngen: maximum of € 480 thousand per annum; Walter Miller: maximum of € 160 thousand per annum.)). The prerequisite was that the agreement, if it was prematurely terminated by the Supervisory Board, was not terminated due to intentional or grossly negligent breach of duty or for dismissal of the body for other important reasons.

In case of premature termination of the employment contract after announcing a change-of-control (assumption of control by a third party pursuant to Section 29 of the German Securities Acquisition and Take-over Act [Wertpapiererwerbs- und Übernahmegesetz; WpÜG]),
the service contract of the Executive Board member included a provision for a severance payment in the amount of twice the fixed annual remuneration in addition to all variable compensation components attainable up to this point plus the sum of the annual maximum variable remuneration components attainable during the original maturity of the contract discounted by 5%. It is irrelevant whether the contract was terminated by the company or by mutual agreement.

Impact of incapacity to work and death

Dr. Mariola Söhngen and Walter Miller

Regulations have also been determined for the event of temporary or permanent incapacity for work or in case of the death of the Executive Board member. The service contracts of the Executive Board members stipulate that in case of temporary incapacity for work, remuneration shall continue to be paid, taking into account the sickness benefit paid by the health insurance, during the period of incapacity for work for a period of up to 12 months but no longer than until the end of the agreed term of the service contract of the respective Executive Board member (period in which remuneration continues to be paid). At the end of the period in which remuneration continues to be paid, the contract will lapse, unless it has already ended at this date.

In the event of permanent incapacity for work, the service contract shall expire three months after the end of the month in which the permanent incapacity for work is declared. In the event of death of the respective Executive Board member, the remuneration for the month of death as well as for the next six months is to be paid, but no longer than until the end of the agreed term of the respective service contract. In addition, the variable remuneration components for the relevant year or period due and/or achieved up to the death of the Executive Board member concerned are payable.

Dr. Alfredo Zurlo

(member of the Executive Board up to March 31, 2016)

Regulations had also been determined for the event of temporary or permanent incapacity for work or in case of the death of the Executive Board member. The service contracts of the Executive Board stipulated that in case of temporary incapacity for work, remuneration shall continue to be paid, taking into account the sickness benefit paid by the health insurance, during the period of incapacity for work for a period of up to six months but no longer than until the end of the agreed term of the service contract of the Executive Board member (period in which remuneration continues to be paid).

In the event of a permanent incapacity for work, the service contract shall expire three months after the end of the month in which the permanent incapacity for work was declared. In the event of death of the Executive Board member, the remuneration for the month of death as well as for the next three months would have been payable, but no longer than until the end of the agreed term of the service contract. In addition, the variable remuneration components of the relevant year or period due until the death of the Executive Board member would have been payable.

Other information

No Executive Board member was promised or granted payments by third parties in relation to their Executive Board activities in the past financial year.

3. SHARES AND SHARE OPTIONS OF EXECUTIVE BOARD MEMBERS

The following tables provide an overview of shares and share options held by Executive Board members.

<table>
<thead>
<tr>
<th></th>
<th>Shares</th>
<th>Share options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr. Mariola Söhngen</td>
<td>36,000</td>
<td>0</td>
</tr>
<tr>
<td>Walter Miller</td>
<td>0</td>
<td>—</td>
</tr>
<tr>
<td>Dr. Alfredo Zurlo</td>
<td>—</td>
<td>7,200</td>
</tr>
</tbody>
</table>

INFORMATION ON THE SUPERVISORY BOARD

1. SUPERVISORY BOARD MEMBERS OF MOLOGEN IN FISCAL YEAR 2016:

Oliver Krautscheid, Dipl.-Kfm., independent corporate consultant, Frankfurt/Main, Germany (Chairman and member of the Supervisory Board)
Member of the following other statutorily mandated supervisory boards and comparable domestic and foreign supervisory committees of business enterprises:
CD Deutsche Eigenheim AG, Berlin, Germany (Chairman of the Supervisory Board)
EASY SOFTWARE AG, Mülheim an der Ruhr, Germany (Chairman of the Supervisory Board)
EPG (Engineered nanoProducts Germany) AG, Griesheim, Germany (Chairman of the Supervisory Board)
Dr. Stefan M. Manth MD, independent expert and consultant for pharmaceutical and biotechnology companies, Basel, Switzerland (Deputy Chairman and member of the Supervisory Board)
Not a member of any other statutorily mandated supervisory boards and comparable domestic and foreign supervisory committees of business enterprises.

Susanne Klimek, businesswoman, Managing Director of SALVATOR Vermögensverwaltungs GmbH, Munich, Germany
Not a member of any other statutorily mandated supervisory boards and comparable domestic and foreign supervisory committees of business enterprises.

2. REMUNERATION OF THE SUPERVISORY BOARD:

The remuneration of Supervisory Board members is defined in Article 14 of MOLOGEN AG’s Articles of Association. Supervisory Board members receive fixed remuneration amounting to €20 thousand, as well as an attendance fee of €1 thousand for each Supervisory Board meeting they attend.
Each member of the Supervisory Board receives performance-based variable remuneration for each full €0.01 by which the earnings per share (EPS) of the company reported for the financial year for which the remuneration is reported exceeds the minimum EPS in the individual financial statements, prepared in accordance with the provisions of Section 325 Para. 2a of the HGB. The minimum EPS for fiscal year 2010 amounted to €0.05 and increased by €0.01 for each subsequent financial year. The performance-based variable remuneration totals €1,000.00 per full €0.01 EPS and is limited to a maximum value of €20,000.00.

As the conditions for performance-based variable remuneration had not been fulfilled as of December 31, 2016, there was no entitlement to performance-based remuneration for fiscal year 2016.

In each case, the chairman receives twice this amount. Supervisory Board members who did not complete a full financial year in this capacity receive fixed and performance-based variable remuneration on a pro rata temporis basis in accordance with their length of service on the Supervisory Board.

In addition, Supervisory Board members are reimbursed for all expenses as well as for any potential value added tax payable on their remuneration and expenses.

In fiscal year 2016, Supervisory Board remuneration amounted to €80 thousand (previous year: €80 thousand). Furthermore, attendance fees totaled €116 thousand (previous year: €104 thousand).

The following remuneration was granted to each member of the Supervisory Board in fiscal year 2016:

<table>
<thead>
<tr>
<th>€’000</th>
<th>Remuneration</th>
<th>Attendance fees</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oliver Krautscheid</td>
<td>40</td>
<td>58</td>
<td>98</td>
</tr>
<tr>
<td>Dr. Stefan M. Manth MD</td>
<td>20</td>
<td>29</td>
<td>49</td>
</tr>
<tr>
<td>Susanne Klimek</td>
<td>20</td>
<td>29</td>
<td>49</td>
</tr>
<tr>
<td>Total</td>
<td>80</td>
<td>116</td>
<td>196</td>
</tr>
</tbody>
</table>

3. SHAREHOLDINGS OF SUPERVISORY BOARD MEMBERS:

The following table provides an overview of the shares held by Supervisory Board members as of December 31, 2016. The Supervisory Board does not hold any share options.

<table>
<thead>
<tr>
<th>In units</th>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dec 31, 2016</td>
</tr>
<tr>
<td>Oliver Krautscheid</td>
<td>9,510</td>
</tr>
<tr>
<td>Dr. Stefan M. Manth MD</td>
<td>4,860</td>
</tr>
<tr>
<td>Susanne Klimek</td>
<td>3,000</td>
</tr>
</tbody>
</table>

J. INFORMATION ON SIGNIFICANT EVENTS AFTER THE REPORTING DATE OF DECEMBER 31, 2016

In January 2017, two convertible bonds with an issue volume of €4.99 million were placed on the capital market. The bonds issued as part of the convertible bond issues at an offer price of €10.00 have a maturity of eight years and feature a fixed interest rate of 6% per annum. These bonds can be converted at a conversion price of €1.60 from April 1, 2017 up to the end of the term into a maximum of 3,124,994 shares of the company. Through the issuance of the convertible bond, the liquid funds of the company increased by €4.99 million, gross. Based on current planning, the funding of the company is therefore secured until the start of 2018.

From May 1, 2017, Dr. Matthias Baumann will be joining the Executive Board as an additional member with responsibility for research and development (CMO). On taking office, his areas of responsibility within the company will comprise research, preclinical and clinical development, approval and the company’s clinical strategy.

K. EXECUTIVE BOARD DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

The Corporate Governance Report (Declaration of Compliance in accordance with Section 161 of the German Stock Corporation Act (deutsches Aktiengesetz; AktG)) and the Declaration on Corporate Management pursuant to Section 289a of the HGB are available on the company website at http://www.molongen.com/de/investoren-presse/corporate-governance.

L. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Executive Board and released for publication on March 8, 2017.

Berlin, March 8, 2017
Executive Board of MOLOGEN AG

Dr. Mariola Söhngen
Chief Executive Officer

Walter Miller
Chief Financial Officer
AUDITOR’S REPORT

We have audited the individual annual financial statements prepared in accordance with article 325 (2a) HGB (Handelsgesetzbuch = German Commercial Code) – comprising the balance sheet, statement of comprehensive income, cash flow statement, statement of changes in equity and the notes to the financial statements – together with the bookkeeping system, and the management report of Mologen AG for the business year from January 1, 2016 to December 31, 2016. The maintenance of the books and records, the preparation of the individual annual financial statements in accordance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to article 325 (2a) HGB as well as the preparation of the management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the individual annual financial statements prepared in accordance with Article 325 (2a) HGB, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with article 324a HGB in conjunction with article 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – 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 individual annual financial statements prepared in accordance with article 325 (2a) HGB taking into account applicable accounting regulations and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company 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 books and records, the individual annual financial statements prepared in accordance with article 325 (2a) HGB and the management report are examined primarily on a test basis within the framework of the audit.

The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the individual annual financial statements prepared in accordance with article 325 (2a) HGB and 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 individual annual financial statements comply with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to article 325 (2a) HGB and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with these regulations.

The management report is consistent with the individual annual financial statements prepared in accordance with article 325 (2a) HGB, complies with legal requirements and as a whole provides a suitable view of the Company’s position and suitably presents the opportunities and risks of future development.

Without qualifying this opinion, we refer to the information included in the management report. The chapter “financial risks” states that the Company’s existence is threatened, if the Company does not succeed in raising sufficient cash flow from financing activities respectively from partnering in the future.

Leipzig, March 8, 2017
Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft

Werner Remme Stefan Schmidt
German Public Auditor German Public Auditor

Mologen AG, Berlin

Individual Annual Financial Statements prepared in accordance with article 325 (2a) HGB for the year ended December 31, 2016 – in accordance with IFRS as adopted by the EU - and Management Report for the financial year 2016
RESPONSIBILITY STATEMENT BY THE MANAGEMENT BOARD

To the best of our knowledge, and in accordance with the applicable reporting principles, the individual financial statements pursuant to § 325 Para. 2a of the German Commercial Code according to IFRS as applied in the EU, give a true and fair view of the assets, liabilities, financial and profit or loss situation of the company, and the management report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

Berlin, March 8, 2017
MOLOGEN AG – Management Board

Dr. Mariola Söhngen
Chief Executive Officer

Walter Miller
Chief Financial Officer
»KNOWLEDGE IS TO KNOW, WHERE IT IS WRITTEN.«  ALBERT EINSTEIN
GLOSSARY

ADJUVANT
A substance that enhances antigen-specific immune responses when injected with antigens.

AGONISTS
Compounds that bind to receptors, thereby activating signal transduction in the associated cell (in contrast to antagonists, which inhibit signal transduction).

ANALYSIS, EXPLORATIVE
Evaluation of data for the purposes of defining a hypothesis.

ANTIBODIES
Proteins which are produced by the immune system to identify foreign substances and pathogens so that they can destroy them.

ANTIGENS
Specific structures to which antibodies bind or which are being recognized by cells; the binding/ recognition leads to an activation of the immune system.

ART (ANTIRETROVIRAL THERAPY)
ART is a treatment strategy for patients with HIV which combines several drugs. This can slow the rate at which the virus replicates within the body and can considerably delay the onset of the disease (by decades), but ultimately is not a complete cure.

IMMUNOMODULATOR
A substance that affects the immune system.

CHEMOTHERAPY
Inhibition of the growth of tumor cells in organisms through the use of chemical substances. The term usually refers to cytotoxic chemotherapy, which means the combating of tumor cells through the use of drugs that kill rapidly proliferating cells.

CLINICAL STUDY
Systematic, ethically regulated study of humans with the objective of gaining knowledge about diagnostic procedures, treatment methods and/or drugs.

COMBINATION THERAPY
Treatment of a disease with a specific drug in combination with other drugs.

CYTOKINES
Signal generating molecules that influence other cells during inflammation or infections.

EMA
Abbreviation for European Medicines Agency.

ENANDIM® TECHNOLOGIE
EnnanDim® (Enantiomeric, DNA-based, ImmunoModulator) is an innovative DNA-based TLR9 agonist developed by MOLOGEN that powerfully and comprehensively activates the immune system.

ERADICATION
Complete elimination.

EXPLORATORY STUDY
A study which aims to gain information on hypotheses. This information must then be verified via confirmatory studies. When a hypothesis is tested, a particular question must be unequivocally answered. For instance, an exploratory study can prove that the drug being tested statistically and significantly meets the predefined primary endpoint.

FIRST-LINE TREATMENT
Initial treatment commenced on diagnosis (generally for tumor indications). If this is not effective or loses its efficacy, a second-line treatment will be initiated whenever possible or appropriate.

HEPATITIS B
Hepatitis B is a potentially life-threatening liver infection caused by the hepatitis B virus. The disease can be chronic or acute and can cause liver cirrhosis or cancer of the liver.

HIV
HIV (Human Immunodeficiency Virus) infects the immune system and destroys or affects the proper function of immune cells. Without antiretroviral treatment this eventually leads to immune deficiency and the immune system can no longer fight off a wide range of infections and diseases.

IMPACT
IMPACT (Immunomodulatory MGN1703 in Patients with Advanced Colorectal Carcinoma with Disease Control after Initial First-line Therapy) was a phase II, randomized, placebo-controlled, double-blind, multicenter clinical study aiming to determine the efficacy of lefitolimod (MGN1703) as switch maintenance therapy following first-line chemotherapy with or without bevacizumab in patients with metastatic colorectal cancer.

IMPALA
IMPALA (Immunomodulatory MGN1703 in Patients with Advanced Colorectal Carcinoma with tumor reduction during induction treatment) is a randomized, international, multicenter, open-label phase III trial. The study aims to prove that a switch maintenance therapy with an active immunotherapy leads to an increased overall survival of patients who have achieved a response during their first line treatment with chemotherapy with or without biologics. The primary endpoint is overall survival.

IMPULSE
The trial titled “Randomized Clinical Study of Maintenance Therapy with Immunomodulator MGN1703 in Patients with Extensive Disease Small Cell Lung Cancer after Platinum-Based First-Line Therapy” (IMPULSE study) has overall survival as the primary endpoint and compares lefitolimod (MGN1703) versus best standard of care.

IMMUNOMODULATOR
Substance that affects the immune system.

CANCER
A disease that occurs when cells in the body undergo a series of genetic mutations that inactivate the organism’s growth controls. This causes the original cells to change into malignant cells that divide unhindered to the detriment of healthy cells and grow into a tumor. Cancer cells also become dangerous in view of their ability to leave the site in which they first occurred and to establish themselves (metastasize) in other areas of the body.

METASTASIZE
To spread from one part of the body to another (e.g., liver, lungs) by breaking off cells that travel in the blood or lymph, and that can grow into separate tumors. Cancer cells can also spread through the body via the lymphatic system and the bloodstream.

MOLOGEN ANNUAL REPORT 2016

BIOMARKERS
Measurable cellular, molecular or genetic patient characteristics (e.g. blood values).
IMMUNE SYSTEM, ADAPTIVE
Specific (or ‘induced’) immune reaction specifically directed at certain pathogens or structures (antigens).

IMMUNE SYSTEM, INNATE
Unspecific or inherent immune reaction to combat foreign matter or pathogens.

IMMUNOTHERAPY
Treatment approach aimed at stimulating the immune system.

INFECTIOUS DISEASES
Diseases triggered by pathogen penetration or contact with micro-organisms.

INJECTION, SUBCUTANEOUS
Administering of drugs or vaccine into the fatty tissue under the skin.

INTERFERONS
Proteins that have an immunostimulating effect which is mainly antiviral and antitumor. They are endogenous tissue hormones which form in human and animal cells, mainly by leukocytes (white blood cells, e.g. T-lymphocytes or monocytes) and fibroblasts.

IN VIVO
In a living organism.

IN VITRO
In a test tube or cell culture.

LEFITOLIMOD
The international nonproprietary name (INN) of MGN1703 since January 2016. INNs are names for active ingredients as recommended by the World Health Organization (WHO). In contrast to brand names, which are registered trademarks (identified with ®) that belong exclusively to a particular manufacturer, these are generally available and not protected.

LEISHMANIASES
The term leishmaniasis includes various diseases caused by various types of leishmania parasites. The diseases are often difficult to treat and can even prove fatal.

LUNG CANCER, SMALL CELL
Lung cancer is one of the most common cancer diseases. The two main types are small cell lung cancer (SCLC) and non-small cell lung cancer (NSCLC). SCLC is a fast-growing type of lung cancer that usually spreads more quickly than NSCLC.

MALIGNANT MELANOMA
One of the most pernicious forms of skin cancer.

MONOTHERAPY
Treatment of a disease with one therapy concept.

MOLECULAR MEDICINE
Interface between medicine and biochemistry relating to cellular and genetic research.

ONCOLOGY
The branch of science that deals with cancer.

ORPHAN DRUG
This describes a drug for the treatment of rare diseases. The development of such a drug is usually uneconomical and is therefore supported by the pharmaceutical authorities through means such as simplified approval processes and exclusive marketing rights for the developing company for a limited period of time.

PHASE I
Study investigating the safety and tolerability of a drug on healthy subjects and/or patients (also known as “first-in-man”) and ascertainment of the appropriate dose (“dose finding”).

PHASE II
Study investigating the safety, tolerability and efficacy of a drug in patients: verification of the treatment concept (“proof of concept”).

PHASE III
Study validating the efficacy and safety (“confirmation of clinical efficacy and safety”) in a larger number of patients; Following positive study results, an application for drug approval can be submitted.

PLASMACYTOID DENDRITIC CELLS (PDCS)
Innate immune cells that circulate in the blood and are found in peripheral lymphoid organs. As components of the innate immune system, these cells express intracellular Toll-like receptors 7 and 9. Upon stimulation and subsequent activation, these cells produce large amounts of type I interferon (mainly IFN-a (alpha) and IFN-β (beta)), which are critical compounds that mediate a wide range of effects.

RADIATION THERAPY
Also called radio therapy, radiation therapy represents one of the traditional cancer treatments, whereby high-energy electromagnetic rays are directed at the tumor.

STANDARD THERAPY
A recognized treatment method that is most commonly applied; its efficacy has been proven through prior therapy studies and clinical experience (see clinical study).

SWITCH MAINTENANCE THERAPY
A treatment that involves a switch of drugs or concept of treatment. In the context of MOLOGEN’s studies IMPALA and IMPULSE, the switch takes place as part of the first-line treatment.

TEACH
TEACH (Toll-like Receptor 9 Enhancement of Antiviral Immunity in Chronic HIV Infection) is a non-randomized interventional phase I/IIa trial of lefitolimod (MGN1703) in HIV-infected patients.

THERAPEUTIC VACCINATION
Vaccination to treat an already existing infection or an already present tumor.

TLR (TOLL-LIKE RECEPTOR)
TLRs consist of a protein that can identify a series of components in fungi, viruses and bacteria, thereby triggering a biochemical chain reaction in the cells to activate the immune system and inhibit such pathogens.

TLR9 AGONIST
TLR9 agonists are biochemical substances that bind themselves to appropriate TLR9 receptors on the interior of certain immune cells and activate them.

VACCINATION
Vaccination, from the Latin vaccinus (originating in cows), originally described the procedure developed by Edward Jenner in 1796 to use cowpox viruses to vaccinate against smallpox. The term is generally used today to describe the activation of the immune system against certain cell structures (antigens). In the classic sense, this involves administering vaccines (e.g. a weaker form of pathogen) in order to immunize the organism against disease-causing pathogens.

VECTOR
A cellular transport or delivery vehicle that can transport, for example, DNA into cells.
### FINANCIAL CALENDAR 2017

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>MARCH 22, 2017</td>
<td>ANNUAL FINANCIAL STATEMENT AND ANNUAL REPORT 2016</td>
</tr>
<tr>
<td>APRIL 28, 2017</td>
<td>ANNUAL GENERAL MEETING</td>
</tr>
<tr>
<td>MAY 11, 2017</td>
<td>QUARTERLY STATEMENT AS OF MARCH 31, 2017</td>
</tr>
<tr>
<td>AUGUST 10, 2017</td>
<td>HALF-YEAR REPORT AS OF JUNE 30, 2016</td>
</tr>
<tr>
<td>NOVEMBER 09, 2017</td>
<td>QUARTERLY STATEMENT AS OF SEPTEMBER 30, 2017</td>
</tr>
</tbody>
</table>

### CONTACT

For further information please contact:
Investor Relations & Corporate Communications
Phone +49 (0)30 84 17 88-38
investor@mologen.com
www.mologen.com

### IMPRINT

<table>
<thead>
<tr>
<th>Publisher</th>
<th>Phone</th>
<th>Fax</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOLOGEN AG</td>
<td>+49-30-84 17 88-0</td>
<td>+49-30-84 17 88-50</td>
</tr>
<tr>
<td>Fabeckstr. 30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14195 Berlin</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Concept and Design</th>
<th></th>
<th>Photos</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheufele Hesse Eigler Kommunikationsagentur, Frankfurt am Main</td>
<td>Die Hoffotografen GmbH, Berlin Plainpicture, Getty Images, Shutterstock, Thinkstock</td>
<td></td>
</tr>
</tbody>
</table>

This annual report is available on www.mologen.com.
Please note: Only the German version is valid and applicable.
DISCLAIMER

This document contains forward-looking statements which are based on the current estimates and assumptions by the corporate management of MOLOGEN AG. Forward-looking statements are characterized by the use of words such as expect, intend, plan, predict, assume, believe, estimate, anticipate and similar formulations. Such statements are not to be understood as in any way guaranteeing that those expectations will turn out to be accurate. Future performance and the results actually achieved by Mologen AG depend on a number of risks and uncertainties and may therefore differ materially from the forward-looking statements. Many of these factors are outside MOLOGEN's control and cannot be accurately estimated in advance, such as the future economic environment and the actions of competitors and other involved in the marketplace. MOLOGEN neither plans nor undertakes to update any forward-looking statements.