MOLOGEN AG

# MOLOGEN. Our Research – for you

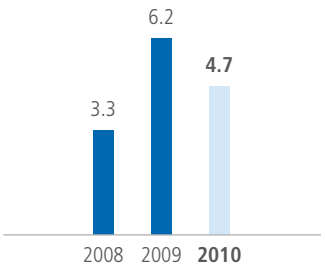
## Annual Report 2010

# ADVANCED PRODUCT PIPELINE

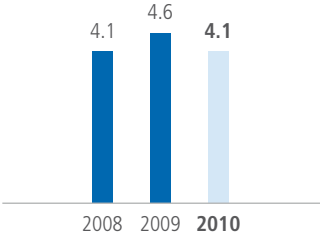
**of MOLOGEN AG as of December 31, 2010**

| Product | Research | Pre-Clinic | Phase I | Phase II | Phase III | Approval | Marketing |
|---|---|---|---|---|---|---|---|
| **Oncology** | | | | | | | |
| MGN1703 colorectal cancer see page 4 | | | | | | | |
| MGN17XX other malignant tumors | | | | | | | |
| MGN1601 renal cancer (cell-based therapy) see page 6 | | | | | | | |
| **Infectious Diseases** | | | | | | | |
| MGN1331 leishmaniasis (EU-Funding) see page 8 | | | | | | | |
| MGN1333 hepatitis B (BMBF-Funding) see page 8 | | | | | | | |

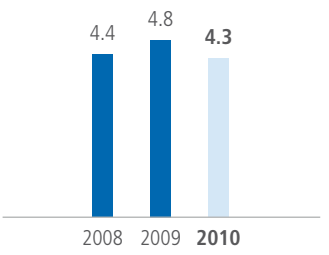
**Cash and cash equivalents in million €**




**R&D expenses (HGB) in million €**




**R&D expenses (IFRS) in million €**



# KEY DATA

**MOLOGEN AG according to IFRS**

| In million € | 2010 | 2009 | Change |
|---|---|---|---|
| **Results** | | | |
| Revenues | 0.1 | 0.1 | 0% |
| Personnel Expenses | 2.5 | 2.2 | +13.6% |
| EBIT | -5.7 | -6.4 | +10,8% |
| Net loss for the year | -5.7 | -6.3 | +9.5% |
| R&D expenses | 4.3 | 4.8 | -10.4% |
| EPS in € (basic) | -0.52 | -0.64 | +18.8% |
| **Statement of financial position** | | | |
| Cash and cash equivalents | 4.7 | 6.2 | -24.2% |
| Non-current assets | 1.5 | 1.9 | -21.1% |
| Current assets | 5.5 | 6.7 | -17.9% |
| Non-current liabilities | 0.1 | 0.1 | 0% |
| Current liabilities | 0.8 | 1.1 | -27.3% |
| Equity | 6.2 | 7.4 | -16.2% |
| Equity ratio | 88 % | 86 % | +2% |
| **Cash flow statement** | | | |
| Cash flows from operating activities | -5.5 | -5.1 | -7.8% |
| Cash flows from investing activities | -0.1 | -0.1 | 0% |
| Cash flows from financing activities | 4.1 | 8.1 | -49.4% |
| **Number of employees as of Dec. 31** | **44** | **44** | **0%** |
| **MOLOGEN share** | | | |
| Outstanding shares as of Dec. 31 | 11,213,348 | 10,143,348 | +10.5% |
| Year end price in € | 8.60 | 7.38 | +16.5% |

# 2010 – TARGETS REACHED

**Our most important advances at one glance**

### → Approval for the clinical phase II/III study with cancer medicine MGN1703

The efficacy of the medicine in the treatment of metastasized colorectal cancer is being studied

### → Funding (BMBF) for the development of an innovative DNA vaccine MGN1333 against hepatitis B

Development of an innovative, highly effective DNA vaccine which is to reduce the number of the currently required injections

### → € 4.3 million from a capital increase

Strengthening of the resources for the continuation and expansion of clinical development programs

### → Begin of the phase II/III study with MGN1703 against colorectal cancer in Germany and Austria

Begin of the treatment of patients with colorectal cancer – efficacy of a DNA cancer medicine with few side effects

### → Approval of the clinical phase I/II study with MGN1601 against renal cancer

tolerability and efficacy of the medicine is tested in the treatment of advanced renal cancer

### → A further analysis of the phase Ib study confirms the active principle of MGN1703

Patient data confirms the broad activation of the immune system as it is necessary for a successful fight against malignant tumors

### → Positive intermediate results in the development of the DNA vaccine MGN1331 against leishmaniasis

Scientific evaluation of a funding project (EU) by the European Commission at the begin of the second half of its term

### → Clinical phase II/III study with MGN1703 started in France

French clinics have been approved to start with the treatment of patients with colorectal cancer

### → Begin of the clinical phase I/II study with cancer medicine MGN1601

Begin of the treatment of patients in Germany with this innovative renal cancer therapy

We conduct research – with a professional approach and passion – to develop medicines that have few side effects and are primarily DNA-based. Oncology and infectious diseases are the focus of our development work. Our universally applicable platform technologies thereby form the basis for our broad and attractive medicine pipeline. What is remarkable: the active principle of our medicines utilizes the defense system of the human body and enables the patient's immune system to start and continue to fight against the disease on its own again. An approach that our team enforces with great conviction.

With our unique technologies and innovative products we want to be among the leading biotechnology companies in the field of DNA-based therapies and vaccines.

We conduct research for you – for innovative medicines that are highly effective and well tolerated.

MOLOGEN AG

# CONTENT

**Dr. Matthias Schroff,**
**Chief Executive Officer (CEO)**
is a scientist and responsible for the areas research and development, strategy and partnering. With a Ph.D. in biochemistry he firstly worked as a leading scientist for MOLOGEN AG, is the co-inventor of numerous technologies of the company and is now the drive of further groundbreaking developments.

In 2005 he became a member of the Board of Directors and Chief Scientific Officer and was appointed as Chief Executive Officer in 2008.

**Jörg Petraß,**
**Chief Financial Officer (CFO)**
is accountable for the areas finance, investor relations, administration and human resources. Since 2001 he combines his management experiences in the field of finances with detailed knowledge about the business at MOLOGEN AG and the biotechnology sector.

In the position of Chief Financial Officer (since 2007) he brings this broad expertise into the company and with this is an ideal complement to the CEO.



# DEAR SHAREHOLDERS,

An important business year is behind us, during which the basis was laid for our future development. We are grateful to our employees and partners, who are essential to forging the way by carrying out top-notch research and development with great commitment and expertise. This is playing out in an industry where the road to success rarely leads to products but rather presents measuring results.

In addition to presenting the important facts with respect to our business process in our current 2010 annual report, we are therefore giving our employees more room to speak as they enthusiastically stand behind our product developments.

This annual report describes the foundation based on which our company will enter a critical phase in 2011: After many years as a research biotechnology company, we are about to out-license a first blockbuster candidate – our colorectal cancer medicine MGN1703. The results up to now regarding safety, tolerability and, more importantly, efficacy of our medicine were clearly above our expectations. After we were able last fall to also prove the active principle of MGN1703, the out-licensing of the medication is now within reach. First results from the ongoing phase II/III study will likely be available after an interim analysis in the second half of 2011. Naturally, we are simultaneously in communication with large pharmaceutical companies.

The very successful completion of the capital increase at the beginning of the year with close to 10 million euros made it possible for us to lead the license negotiations with the necessary aplomb. But in view of our product potential, we also want to focus on expanding our product pipeline. We therefore plan to apply for a new clinical study in the first half of 2011. We would like to research the efficacy of our main product, MGN1703, in an additional cancer indication. Particularly our proprietary, comprehensively patented platform technologies MIDGE® and dSLIM® provide us with various possibilities to develop additional medicines, gene therapies, and vaccines. They are the key to our unusually strong product pipeline.

Aside from the clinical phase II/III study with our colorectal cancer medicine MGN1703, in 2010, particularly the preparation and begin of the clinical phase I/II study of our cell-based gene therapy MGN1601 against renal cancer was the focus of our activities. According to first results, this medicine has a positive safety profile and an excellent tolerability.

Moreover, in 2010, MOLOGEN started a new research project together with the Dutch company Synvolux Therapeutics B.V. in order to develop an innovative, highly effective vaccine against infections through hepatitis B viruses. This project, named MGN1333, will be described in further detail in the course of the annual report.

Our progress in the clinical development programs of our medicines is also reflected in the financial statements of MOLOGEN AG. The expenditures for Research and Development in the financial year 2010 amounted to 4.3 million euros as budgeted, compared to 4.8 million euros in 2009. These investments into the expansion of our product pipeline were also the main reason for the annual deficit, which in 2010 decreased by 0.6 million euros and at the end of the year amounted to 5.7 million euros. As in the previous year, the revenue of 0.1 million euros was at a low level, while other operating income – primarily subsidies – slightly increased to 0.4 million euros. The financial position of MOLOGEN AG continues to be characterized by a large proportion of cash funds in total assets: cash and cash equivalents as of December 31, 2010 were at 4.7 million euros.

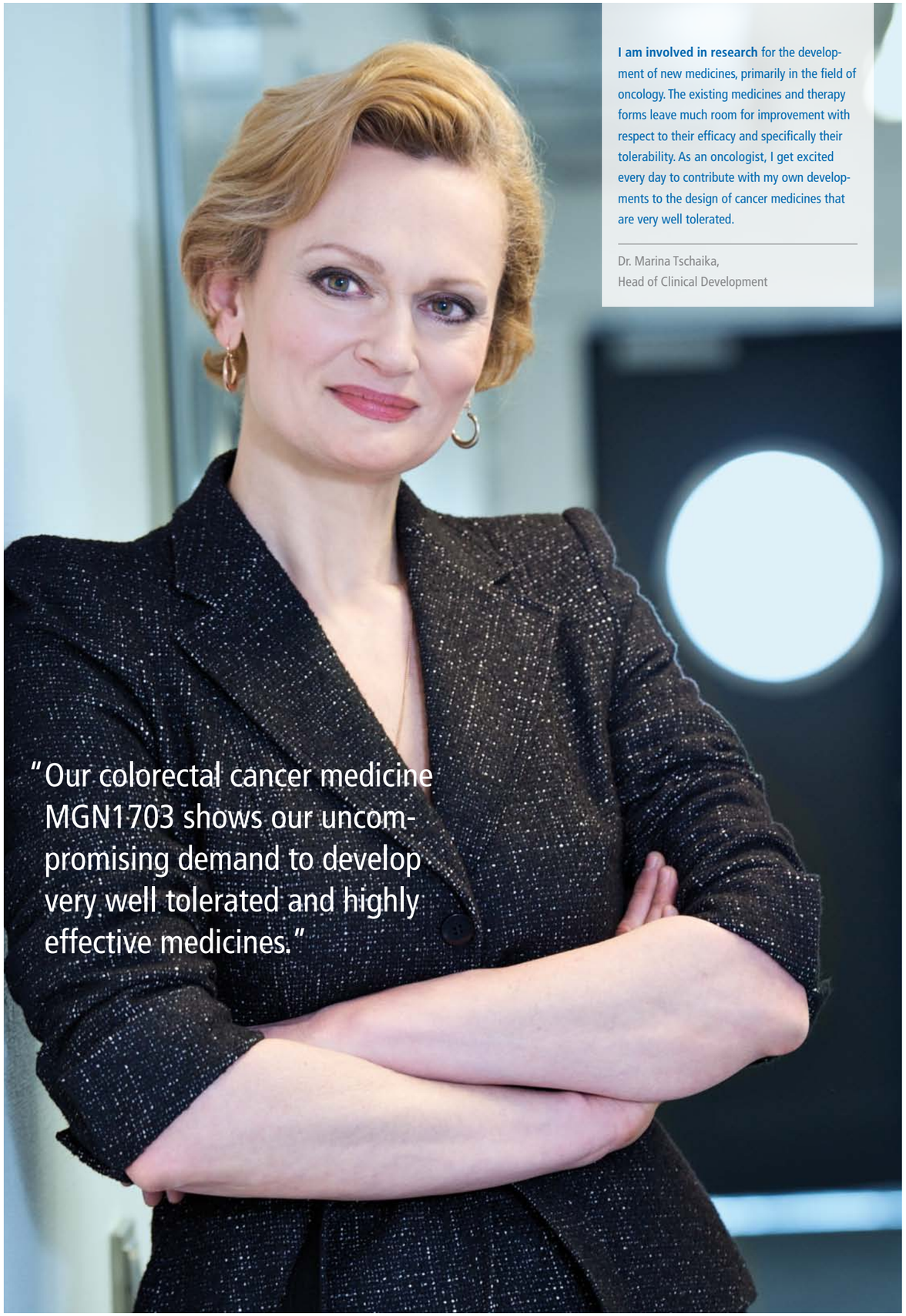
Thanks to the high scientific expertise and commitment of our employees and the close cooperation with renowned institutes, MOLOGEN AG today is well positioned for the next development phases. The capital increase in January was once again an important confirmation for us and a sign of great trust.

Please join us for the next phases of our extremely interesting journey. Thank you.

Sincerely,

Dr. Matthias Schroff
Chief Executive Officer

Jörg Petraß
Chief Financial Officer



**I am involved in research** for the development of new medicines, primarily in the field of oncology. The existing medicines and therapy forms leave much room for improvement with respect to their efficacy and specifically their tolerability. As an oncologist, I get excited every day to contribute with my own developments to the design of cancer medicines that are very well tolerated.

Dr. Marina Tschaika,
Head of Clinical Development

"Our colorectal cancer medicine MGN1703 shows our uncompromising demand to develop very well tolerated and highly effective medicines."





# MGN1703

## DNA immune therapy against colorectal cancer

**Oncology**

**Colorectal cancer is one of the most frequently occurring cancers worldwide and at the same time the second most frequent cause of death in western industrial countries. With more than 1 million cases, the number of new diagnosis is one of the highest of all cancer indications annually, tendency increasing. Chemotherapy medicines form the basis for the treatment of colorectal cancer and are combined with additional treatment methods or other medications depending on the stage of the disease. The treatment, however, is accompanied by severe side effects and resistance problems and significantly impacts the patients' quality of life. This is where the development of MGN1703 begins. The goal is a high efficacy combined with good tolerability with the fewest possible side effects.**

MGN1703 is a DNA-based compound that is being developed for the immune therapy of metastasized, solid tumors. In clinical phase Ib, a very good safety profile was already apparent. As expected, the medicine was very well tolerated by the patients. The efficacy potential was also very promising.

### ACTIVE PRINCIPLE PROVEN

In fall 2010, a sequence of clinical data based on biomarkers from the already completed phase Ib study was analyzed. It provided exemplary proof that the patients' immune system was broadly activated in a way that is necessary for the successful treatment of malignant tumors.

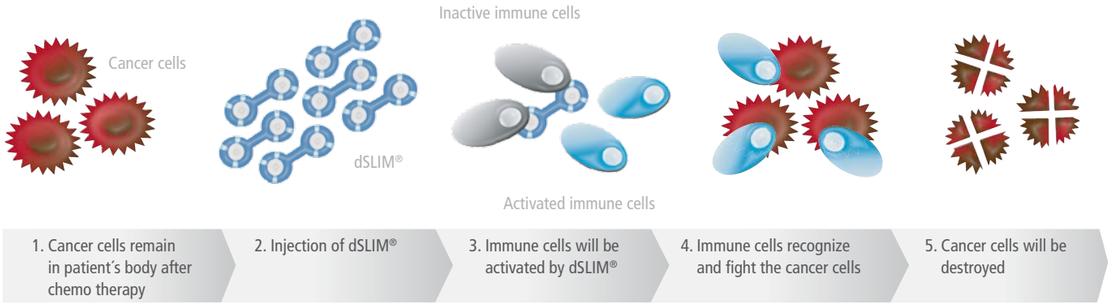
### START OF THE CLINICAL PHASE II/III STUDY

MGN1703 is being tested since June 2010 in an official approval requiring clinical phase II/III study. The goal of the study is to show that a progression of the cancer can be prevented for significantly longer than is possible with the current available treatment methods.

The study is currently being conducted at various study centers in Germany, Austria, and France. First results will presumably be available after an interim analysis planned for the summer of 2011.

This study marks an additional important milestone in the clinical development program of the company.

**The immune system of the patients is broadly activated with the immunomodulator MGN1703. This enables the immune cells to identify cancer cells and attack them.**



**I am involved in research** for an innovative medicine against renal cancer. As a molecular biologist, I am fascinated by the idea of using body-foreign tumor cells as a herapeutic inoculation against this very difficult to treat cancer. The dedicated research work of my colleagues and me currently focuses specifically on the professional execution of our current clinical study with MGN1601.

Ekaterina Weith,
Project Head Clinical Development MGN1601


# MGN1601

## Therapeutic vaccination against renal cancer

**Oncology**

**Annually, about 200,000 people fall ill with renal cancer, of those 15,000 just in Germany. Due to the late onset of symptoms, distant metastases are frequently found even during the initial diagnosis, which makes a successful treatment significantly more difficult. Consequently, there is great medical need for new drugs with fewer side effects.**

### THE BASIS ARE FOREIGN RENAL CANCER CELLS

With MGN1601, MOLOGEN developed an innovative, well tolerated renal cancer medicine with only little side effects. The basis for the medicine are human renal cancer cells. MOLOGEN has established its own, unique renal cancer cell line for this purpose. These for the patient foreign (allogeneic) cancer cells are genetically modified with the help of MIDGE® DNA vectors and given additional genetic information. They are then combined with the DNA immunomodulator dSLIM®, which acts as an adjuvant.

### CLINICAL STUDY CURRENTLY TESTS SAFETY, TOLERABILITY AND EFFICACY OF MGN1601

The primary goal of the current clinical phase I/II study is to determine the safety, tolerability and efficacy data of the medicine. After conclusion of the current study, the medicine is to be tested in continuative clinical studies.

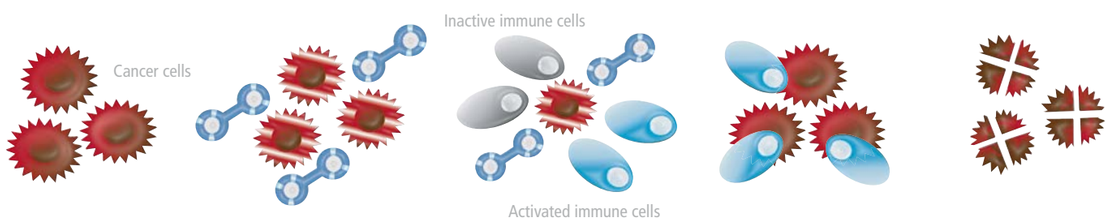
### ORPHAN DRUG – THE EU PROGRAM FOR RARE ILLNESSES

Due to the relative rareness of the illness, MGN1601 received orphan drug status from the European Medicines Agency (EMA), through which the development of treatments for rare and severe illnesses is funded. Among other things, medicines with this status are prospected a ten-year exclusive marketing period within the European Union.

### OUTLOOK / POTENTIAL

With MGN1601 MOLOGEN AG possesses a promising product candidate that might be able to decisively improve the therapy possibilities for renal cancer. Due to the universal characteristics of the underlying cell line, the application of the therapy may also be possible in other cancer indications. MOLOGEN estimates the global market potential just for renal cancer at a lower to middle three-digit million euros amount.

**The foreign cancer cells are very similar to the cancer cells of the patient. The foreign cells teach the immune system to identify the patient's cancer cells. This enables the immune system to then fight the cancer cells again.**



**We are involved in research** on modern DNA-based vaccinations against serious infectious diseases. Leishmaniasis, for example, is such a disease, against which no effective vaccine has been discovered yet. With our proprietary MIDGE® technology we have the perfect tool available for this demanding task.

Dr. Anne Endmann and Dr. Oliver Riede,
Project Heads DNA Vaccinations

"Our DNA vaccinations show the potential of MOLOGEN AG's platform technologies."





# MGN1331

**DNA vaccine against leishmaniasis**

**infectious diseases**

Currently, about 12 million people across the globe suffer from leishmaniasis – with a clearly rising trend and with increasing geographic spread over 88 countries on four continents. This serious and for humans and animals often lethal infectious disease is therefore considered to be one of the 14 "neglected diseases". The combating efforts focusing on these diseases have been given reinforced attention through the World Health Organization.

According to WHO estimates, more than one billion people worldwide suffer from these "neglected diseases". MOLOGEN AG is a committed participant in the fight against leishmaniasis. Together with renowned research institutes from all over the world, the company develops the innovative vaccine MGN1331 for the prevention and treatment of this disease.

Visceral leishmaniasis shows particularly serious effects with a simultaneous HIV infection due to the existing deficiency of the immune system. Global demand for a medically effective preventative and therapeutic treatment is high: according to expert estimates, about 500,000 people contract the severe form of leishmaniasis annually, which results in more than 50,000 deaths per year.

### JOINT RESEARCH IN A CONSORTIUM

MOLOGEN AG early on recognized the potential of innovative DNA vaccines against leishmaniasis. The proprietary platform technology MIDGE® forms the basis for prophylactic and therapeutic DNA vaccines.

MOLOGEN formed an alliance with several international partners of the leishmaniasis research field in order to conduct the very cost-intensive development of a vaccine against leishmaniasis. The consortium receives extensive financial support from European Union funds. The MOLOGEN AG research is thereby funded with up to 1.2 million euros.

The goal is to develop a prophylactic and therapeutic DNA vaccine against leishmaniasis. At the end of the three-year project duration, it is planned to conduct clinical studies with the innovative, broadly applicable vaccine MGN1331.

# MGN1333

**DNA vaccine against hepatitis B**

**infectious diseases**

Hepatitis B is a severe disease of the liver with about 2 billion cases globally, of which 350 million people exhibit the chronic form of the disease. The disease can result in severe conditions such as cirrhosis or cancer of the liver. The treatment of a chronic hepatitis B is difficult and a preventative vaccination is therefore the most important measure.

Even though effective vaccines already exist, there is great demand for innovative, improved vaccines that, for example, achieve immunization with just one dose (so far, three vaccinations are required in most instances), and that can be also used for treatment.

### MIDGE® DNA VECTORS ARE THE BASIS

MOLOGEN starts at this point. With its proprietary MIDGE® vectors it has created an excellent platform that can serve as a basis for the development of well-tolerated DNA vaccines. In contrast to other DNA vectors (plasmids, viruses) the MIDGE® vector only contains the essential information required to achieve the actual effect and is, for example, also 50–80% smaller than previous plasmid-based DNA vectors. A minimalist concept using small components to achieve a very specific effect.

MIDGE® vectors are non-toxic and non-inflammatory even when administered in dosages that far exceed what is clinically relevant. At the same time, the immune system does not show adverse reactions against MIDGE® vectors. A further important safety aspect is that the vector is not introduced into the genetic makeup of the patient. MOLOGEN's MIDGE® vectors overcome the disadvantages that come with other gene transfer and expression systems, particularly with respect to efficacy and safety.

### THE OBJECTIVE – A HIGHLY EFFECTIVE AND WELL-TOLERATED DNA VACCINE

The objective of the development of MGN1333 is to develop a new and highly effective vaccine against infection through hepatitis B viruses. The vaccine is to be available for preventative (prophylactic) use as well as for treatment (therapeutic use). The pre-clinical development of the vaccine is being funded by the Federal Ministry of Education & Research as part of the Eurotrans-Bio initiative of the EU. The project is to be completed by the end of 2012, so that the new vaccine MGN1333 can subsequently be tested in clinical studies.

**Dr. Mathias P. Schlichting,**
**Chairman of the Supervisory Board**
Lawyer, business consultant and partner at Brehm & v. Moers, lawyers – tax consultants, Hamburg



# REPORT OF THE SUPERVISORY BOARD

In the past financial year, the Supervisory Board has intensively engaged itself with the situation and outlook of MOLOGEN AG and pursued the tasks that by law and according to the bylaws fall into its area of responsibility. It worked closely with the Board of Directors and advised it regularly with regard to the leadership of the company and monitored the management of the company. The Supervisory Board was involved in all major decisions of the company. The Supervisory Board adopted resolutions after a comprehensive review, to the extent stipulated by law, bylaws or the rules of internal procedure.

The Supervisory Board held four regular meetings, which were also attended by the Board of Directors. In these meetings, the Board of Directors informed the Supervisory Board promptly and in detail, comprehensively, in writing as well as verbally and according to legal stipulations about the course of the business, the situation of the company, including the risk situation, risk management and compliance as well as about strategy and planning of MOLOGEN AG. The Supervisory Board discussed in detail all business transactions that are important for the company based on the reports provided by the Board of Directors.

The Supervisory Board was also intensively and regularly engaged with the situation of MOLOGEN AG outside of the meetings. Between the meetings, the Supervisory Board was comprehensively and promptly informed through regular reports about the asset, financial and earnings situation, discernible opportunities and risks of the future business development as well as about special events and was included in the general decision making. If required, circular resolutions were adopted.

The Board of Directors consulted the Supervisory Board about the strategic direction of the company, discussed with it all business processes significant for the company – particularly the further development of the company and its financial situation. Deviations of the course of business from plan and target parameters were presented, substantiated and discussed in order to initiate respective measures, if required.

The key aspects of the deliberations were the development of the company, the progress of the pre-clinical and clinical projects as well as securing the respectively required liquidity. Most important in this respect were the preparation and execution of a continuative clinical study with the cancer medicine MGN1703. After the clinical Ib phase for the product was successfully completed in fiscal year 2009, it was possible to start a continuative phase II/III clinical study during the last financial year to determine the efficacy of the medicine in the treatment of metastasized colorectal cancer. The preparation and execution of a clinical study with the cancer medicine MGN1601 was also one focus of the discussions. After all preparations were completed and all required approvals obtained, it was possible in December of 2010 to begin with a clinical phase I/II study to determine the safety and tolerability of the medicine in the treatment of advanced renal cancer.

Moreover, the Supervisory Board comprehensively addressed the financial situation of the company. The focus hereby was on the capital measures conducted in financial year 2010.

In addition, the areas of business development and partnering as well as investor relations were topics of discussion. The Supervisory Board also dealt with the new appointment of the members of the Board of Directors and the compensation structure of the Board of Directors.

Upon the conclusion of financial year 2010, the Supervisory Board approved a capital increase for cash resolved by the Board of Directors and also approved the setting of a subscription price in January 2011. The respective amendment to the bylaws was adopted in February 2011.

No committees were formed in the past financial year.

→ → →

Compliance with the German Corporate Governance Code was continuously monitored by the Supervisory Board. In most matters, MOLOGEN AG complies with the recommendations of the government commission German Corporate Governance Code. Aside from the compliance statement of March 2010, an update of the compliance statement for the Code was adopted by the Board of Directors and Supervisory Board in this respect in November 2010. The current joint statement by the Board of Directors and the Supervisory Board with regard to the Code dated February 24, 2011 can be viewed on the homepage of the company and in the current annual report.

At the Annual General Meeting on June 7, 2010, auditing company Rölfs WP Partner AG Wirtschaftprüfungsgesellschaft was reelected as the auditor for the financial year that ended on December 31, 2010. On behalf of the Supervisory Board, the annual financial statements as of December 31, 2010 prepared according to the provisions of the German Commercial Code (HGB) together with the management report for financial year 2010 were audited by Rölfs WP Partner AG Wirtschaftsprüfungsgesellschaft and received an unqualified auditor's opinion.

In addition, the Board of Directors prepared individual financial statements pursuant to Section 325 Para. 2a HGB as of December 31, 2010 in accordance with the IFRS as applied in the EU. The management report also refers to the individual financial statements. The individual financial statements were also audited by Rölfs WP Partner AG Wirtschaftsprüfungsgesellschaft and received an unqualified auditor's opinion.

The annual financial statements, individual financial statements, the management report as well as the auditor's reports were available to the Supervisory Board members in due time and were reviewed by them in accordance with legal provisions and subsequently discussed in detail at the related Supervisory Board meeting on March 10, 2011 which was also attended by the Board of Directors and the auditor.

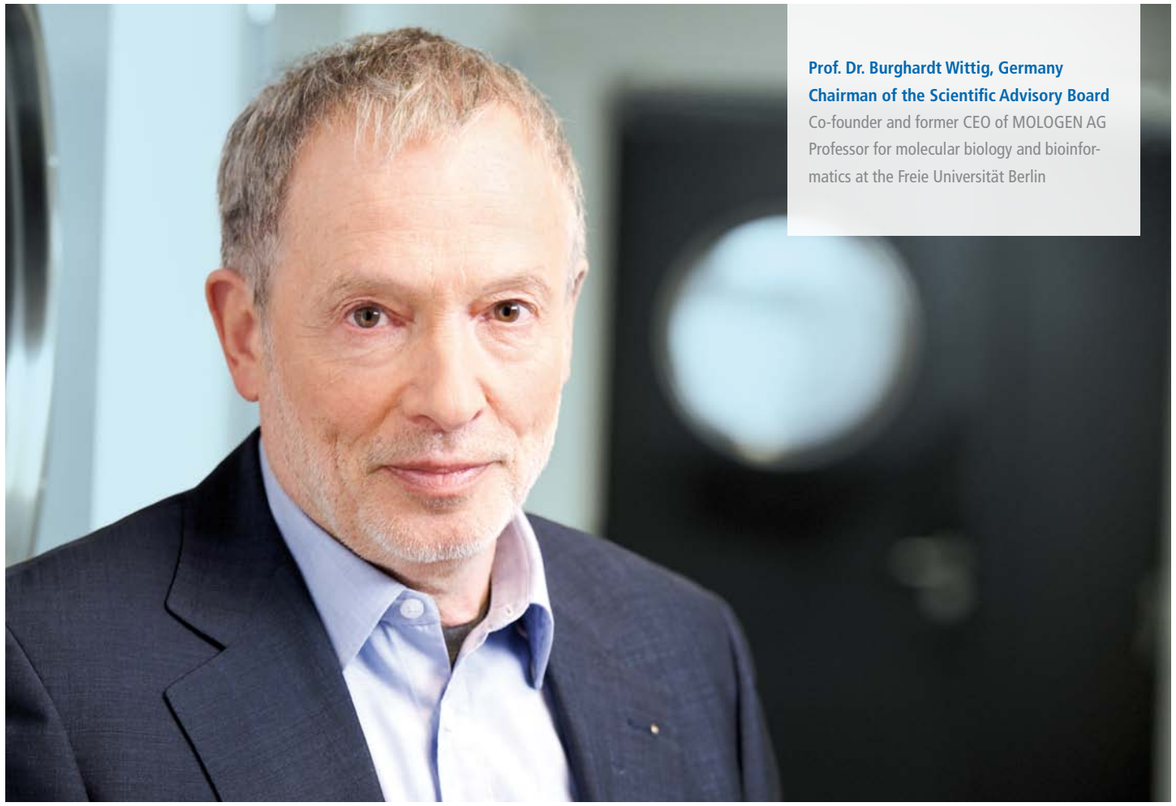
The Supervisory Board agreed with the results of the audit. The review and discussion by the Supervisory Board also did not lead to objections regarding the annual financial statements and individual financial statements. The Supervisory Board furthermore approved the management report and the statements with respect to the company development contained therein. The annual financial statements pursuant to the HGB as of December 31, 2010 as well as the individual financial statements pursuant to Section 325 Para. 2a HGB as of December 31, 2010 in accordance with the IFRS as applied in the EU were subsequently approved by the Supervisory Board. The annual financial statements as of December 31, 2010 pursuant to HGB have thus been adopted.

The Supervisory Board would like to thank the Board of Directors and all employees of MOLOGEN AG for their great commitment and their successful work.

Berlin, March 10, 2011

Dr. Mathias P. Schlichting
Chairman of the Supervisory Board





**Prof. Dr. Burghardt Wittig, Germany**
**Chairman of the Scientific Advisory Board**
Co-founder and former CEO of MOLOGEN AG
Professor for molecular biology and bioinformatics at the Freie Universität Berlin

# THE SCIENTIFIC ADVISORY BOARD – SCIENTIFIC ADVICE OF THE HIGHEST STANDARD

Trough the Scientific Advisory Board, MOLOGEN AG has access to a panel with broad scientific expertise.

The Scientific Advisory Board is a panel of recognized and very experienced scientists in the fields of molecular medicine, infectious diseases, oncological diseases, and pharmaceuticals. Its members are internationally recognized experts in the research and development of medicines.

Through this panel, the Board of Directors and Supervisory Board have access to bundled expertise in the development of new medicines. The Scientific Advisory Board assists MOLOGEN AG in the current product development, with general questions concerning the strategic direction of R&D activities as well as for future planning.

The scientific assessment of the Scientific Advisory Board is also important in the evaluation and planning of clinical studies.

The Scientific Advisory Board of MOLOGEN AG – a knowledgeable interface between science and practical implementation.

**Prof. Dr. Hans Lutz, FVH, FAMH, Switzerland**
Professor for clinical laboratory diagnostics and head of the veterinary medicinal laboratory and vice dean of planning and resources, Vetsuisse faculty, University of Zurich

**Dr. Ulrich Granzer, Germany**
Founder and CEO of Granzer Regulatory Consulting & Services, Munich

**Dr. med. habil. Martin Weihrauch, Germany**
Board certified Internist, Hematologist and Oncologist at the Center for Intergrated Oncology and Medical Director of the outpatient department (MVZ) at the University Clinic, Cologne

MOLOGEN AG Annual Report 2010
The MOLOGEN Share 15

# THE MOLOGEN SHARE

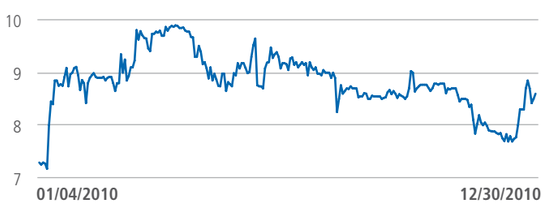
- Stock performance over the course of the year was approximately 18%
- Market capitalization as of December 31, 2010 is € 96 million
- Free float has been expanded to 62% (as of February 28, 2011)

## 2010 positive year for the stock market

2010 was a good year for the German stock market: The DAX, the leading index, grew by about 16% from 5,957 to 6,914 points. Internationally, Germany thus reached a top position – the DAX, for example, clearly beat the Dow Jones EURO STOXX 50: The market barometer of the Eurozone in 2010 decreased by 3%. But the year had not started well for the DAX. The reason for this was the crisis in the Greek public finance system. The threatening insolvency of the country and the high national deficits of other countries of the Eurozone cast doubt on the stability of the currency union. The euro rescue package resolved by the EU helped stabilize the markets. In the course of the year, stock markets were predominantly influenced by the robust economic growth. Particularly in Germany, investor sentiment kept lightening up as the economy in Germany had a particularly positive momentum.

The pharmaceutical industry also recovered over the course of the year. As of December 31, 2010, the German pharmaceutical industry index "DAXsector Pharma & Healthcare" was approximately 11% higher than at the beginning of the year.

**Market trend of the MOLOGEN share in 2010**




## MOLOGEN STOCK GROWS BY 18%

The stock market year was also positive for MOLOGEN shareholders. At the end of 2010, our stock closed at € 8.60, which corresponds to an increase of about 18%. Our stock thus outperformed the industry index.

On January 8, 2010, we concluded a capital increase against cash contribution with the exclusion of pre-emptive subscription rights. With a 20% price jump, this had a very positive impact on the price of the MOLOGEN stock. The highest price of the stock during the year was € 9.90 (April 14, 2010). The main reason for this upward trend was, among others, the approval of our cancer medicine MGN1703 for the clinical phase II study. An interim high of € 9.65 was noted on June 10, 2010, when we were able to announce the higher than expected efficacy of our DNA cancer medicine MGN1703. In the second half of the year, the stock price remained mostly stable and noted merely slight losses. The MOLOGEN stock was able to visibly recover from the lows of November and December, when the stock price had ranged between € 7.50 and € 8.00.

On February 1, 2011, MOLOGEN AG successfully concluded an additional capital increase. At an issue price of € 8.00 per share, MOLOGEN AG received proceeds of about € 10 million. The proceeds will be used for the further development and expansion of the product pipeline.

As of the beginning of this year, the stock price lost 2% and came in at € 8.40 at the end of February.

### SHARE DATA

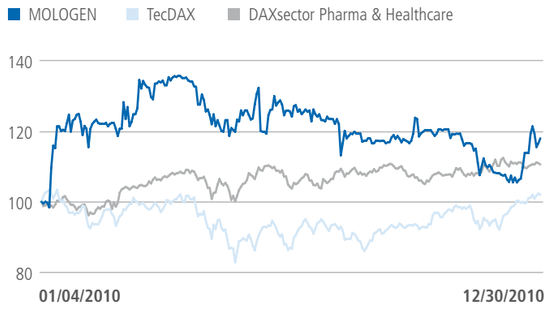
| Share information | |
|---|---|
| Symbol | MGN |
| ISIN | DE 0006637200 |
| WKN | 663720 |
| Class | Bearer shares without par-value |
| Market segment | Regulated market (Prime Standard) |
| DAXsector | Pharma & Healthcare |
| DAXsubsector | Biotechnology |
| Stock Exchange | XETRA, Frankfurt, Berlin, Düsseldorf, Hamburg, Munich, Stuttgart |
| Designated Sponsor | Close Brothers Seydler Bank AG, equinet Bank AG |

### KEY CAPITAL MARKET FIGURES

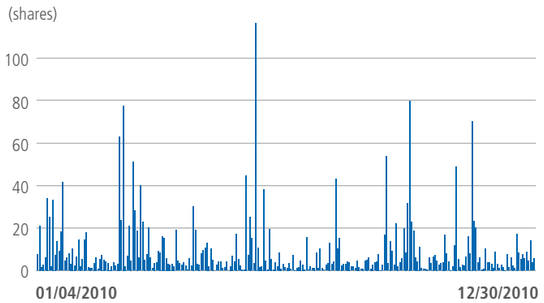
| Key share figures (XETRA) | 2010 | 2009 |
|---|---|---|
| First trading day (€) | 7.29 | 6.45 |
| Last trading day (€) | 8.60 | 7.38 |
| Annual high (€) | 9.90 | 7.80 |
| Annual low (€) | 7.17 | 5.70 |
| Annual average (€) | 8.83 | 6.79 |
| Number of shares outstanding as of Dec. 31 | 11,213,348 | 10,143,348 |
| Weighted average number of shares | 10,882,959 | 9,848,992 |
| Average market capitalization (in million €) | 96.10 | 66.87 |
| Average trading volume at Frankfurt Stock Exchange (units) | 9,296 | 6,035 |
| Stock price development IPO to Dec. 31 (%) | +12.1 | -3.8 |

## STOCK PRICE DEVELOPMENT AND TRADING VOLUME

**Performance comparison 2010**

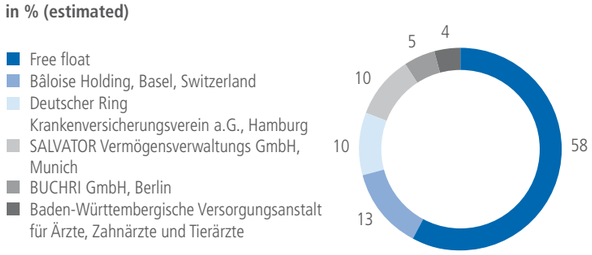



**Trading volume of MOLOGEN share in 2010**




## SHAREHOLDER STRUCTURE

**Share ownership as of 12/31/2010 in % (estimated)**




## Stable shareholder basis

At the end of 2010, roughly 58% of a total of 11.213 million MOLOGEN shares were in free float. After completing the capital increase in early February 2011, the free float increased to approx. 62%. Largest individual shareholders are Bâloise Holding with 11%, SALVATOR Vermögensverwaltung GmbH with 10% and Deutscher Ring Krankenversicherungsverein a.G. with 9%.

## Investor Relations

With our own team we are well positioned in terms of a professional investor relations support. Our goal is a proactive, transparent financial communication with all market participants. In coordination with our new department Company Communications, we will provide information promptly and as objectively as possible about our strategy and about all company-related matters that are capital market-relevant.

Our financial communication is supported by regular research reports and recommendations with regard to the MOLOGEN stock by the analysts of Close Brothers Seydler Research and Independent Research. Since December 2010, the circle of analysts covering our stock has been joined by MONTEGA AG. At the end of 2010, all three companies clearly recommended a purchase of the MOLOGEN stock.





# FINANCIAL INFORMATION

**MOLOGEN AG**

MOLOGEN AG Annual Report 2010



# MANAGEMENT REPORT

**for the Financial Year 2010**

- Revenues of € 0.1 million (2009: € 0.1 million)
- Comprehensive income of € -5.7 million (2009: € -6.3 million)
- EBIT of € -5.7 million (2009: € -6.4 million)
- Average monthly net utilization of cash funds of € 0.5 million (2009: € 0.4 million)
- Cash and cash equivalents of € 4.7 million (2009: € 6.2 million)

[figures according to IFRS]

This Management Report is based on the annual financial statements in accordance with the German Commercial Code (HGB). It also refers to the individual financial statements (Einzelabschluss) according to Section 325 Para. 2a HGB in accordance with the IFRS as applied in the EU. Mologen AG intends to only disclose the individual financial statements according to Section 325 Para. 2a HGB in accordance with the IFRS as applied in the EU pursuant to the stipulations of the German Commercial Code (HGB).

Financial figures that are presented in the Management Report always follow the principles of the stated accounting regulation. When there is no reference to the accounting regulation, the information disclosed pursuant to the German Commercial Code and the IFRS, as they are applied in the EU, does not differ.

## Business activity and strategy

Mologen AG (hereinafter referred to as: MOLOGEN) was founded in 1998 with headquarters in Berlin, Germany and is actively involved in the biotechnology sector. The company is listed on the stock exchange. MOLOGEN researches innovative drugs to treat cancer and infectious diseases.

For this purpose, MOLOGEN has researched and developed its own technologies over the past few years which enable the use of DNA (desoxyribonucleic acid, the carrier of genetic information for all living organisms) as a form of medication to treat or facilitate the treatment of diseases that were previously not or only insufficiently treatable. The technologies have been patented and are marketed under the trademarks MIDGE®, MIDGE®-Th1 and dSLIM®.

MOLOGEN develops new drugs and treatment applications with these technologies. In order to develop optimal product candidates, MOLOGEN applies the technologies individually and in combination. For the extensive clinical studies that are necessary to achieve approval and marketability, MOLOGEN intends to enter into partnerships with pharmaceutical companies and other business partners. These co-operation partners will not only invest in the development costs, but also cover parts of the payments for the transfer of knowledge, performance-based milestone payments as well as revenue-based licensing fees in conjunction with the marketing of a product.

Since MOLOGEN focuses on the research and development of therapies against diseases that have extensive medical requirements, this business model has an extraordinarily high potential yield associated with a successful implementation. To achieve full exploitation of this potential, it is, however, necessary to conduct and finance further development.

The short-, medium- and long-term potential yield of the business model can be characterized as follows:

- short-term potential yield through the supply of basic materials for molecular medicines, the out-licensing of proprietary technologies and product candidates and the resulting payments for development results and licenses,
- medium-term potential yield through the out-licensing of proprietary technologies and product candidates and the resulting advance and milestone payments for development results, licenses and co-operation services,
- long-term potential yield for the profit sharing in drug sales as well as milestone payments for out-licensed product development.

The successful research and development of proprietary technologies and product candidates are a prerequisite for the exploitation of these potential yields. Research and development of new drugs is always associated with high risk and extensive financial requirements.

Any negative results from research and development activities can potentially lead to risks that impact the development of the company. The same applies if there is a future shortage of liquidity funds to finance additional research and development of proprietary technologies and product candidates.

MOLOGEN does not prepare segment reports, because the technologies and product candidates are still in the research or development state. It is not possible to allocate cash flows and respective expenses to individual product candidates and technologies, because different combinations of the company's own as well as licensed technologies are used for different product candidates. On this basis, segment reporting would not result in gaining additional information compared to the other annual financial statement components and the information that is contained in the management report.

## Legal framework conditions

The regulatory framework conditions for research and development of new pharmaceuticals is particularly relevant for MOLOGEN. This area is subject to regular changes and further development. For example, the German Pharmaceutical Law was amended once again. This time by the Law for the Reorganization of the German Pharmaceutical Market in statutory health insurance (Arzneimittelmarktneuordnungsgesetz – AMNOG), which came into effect on January 1, 2011. Overall, the changes in the underlying conditions have not had a disproportionally strong impact on the business activity of MOLOGEN.

The underlying conditions in the public health sector, especially in the EU and in the USA, are relevant for the market potential of MOLOGEN's own product candidates as well as the continuous cost pressure in the healthcare systems in particular.

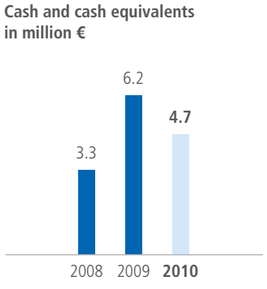
## Performance indicators

### FINANCIAL PERFORMANCE INDICATORS

The activities focus on the research and development of proprietary technologies and product candidates with the objective to out-license those to pharmaceutical partners.

It is therefore essential that sufficient liquidity is ensured to carry out the research and development programs to the planned extent and in the scheduled time frame and to use the newly discovered data to support the out-licensing efforts. Since MOLOGEN does not yet have any considerable regular revenue from licensing agreements, the amount of the liquid assets (cash and cash equivalents) represents the essential financial performance indicator. On December 31, 2010, cash and cash equivalents amounted to € 4.7 million (12/31/2009: € 6.2 million), strengthened in particular through the issuance of new shares.

**Cash and cash equivalents in million €**

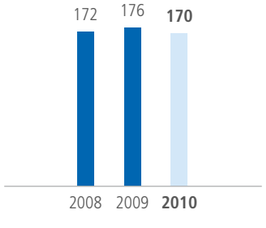



### NON-FINANCIAL PERFORMANCE INDICATORS

The protection of the proprietary platform technologies and drug candidates and the company's internal expertise are of great importance for the business strategy of MOLOGEN. A successful out-licensing of proprietary drug candidates will depend to a large degree on the quality of the underlying patent protection. MOLOGEN's objective therefore is to protect new technologies, products and processes through patents and to continually develop the product portfolio.

As of December 31, 2010, the product portfolio consists of 25 patent families and comprises about 170 individual patents that have been granted or are scheduled to be granted, and more than 60 patent applications.

**Number of patents granted and scheduled to be granted***




*estimated values



## Compensation report

The remuneration of the members of the Board of Directors includes fixed (€ 180 thousand p.a.) and variable, performance-based components. The amount of the variable compensation component (max. € 360 thousand p.a.) is dependent on the attainment of the respectively agreed success criteria.

Part of the success criteria includes the attainment of research- and development-focused goals, the attainment of objectives in the implementation of the commercialization strategy of the company as well as the securing of sufficient liquidity for the financing of research and development activities. The sum of the variable compensation components, bonus payments and special compensation is limited by a maximum amount. Before the respective year begins, the Supervisory Board determines in particular the research and development-focused goals and the objectives for the implementation of the commercialization strategy of the company.

Furthermore, following a resolution of the Annual General Meeting, MOLOGEN had in the past introduced various employee participation programs and issued the respective stock options to the members of the Board of Directors.

If the situation of the company were to deteriorate to such a degree, after the total compensation of the members of the Board of Directors had already been specified, that a further payment of the compensation were to be unreasonable for the company, the Supervisory Board would have the right to unilaterally lower the compensation amounts to an appropriate amount taking into consideration legal provisions. In the event of extraordinary developments, the Supervisory Board at its own discretion also has the right to limit the variable compensation component to a certain amount; however, this amount must not be unreasonable.

Moreover, the contracts with the members of the Board of Directors require that the company provides each member of the Board of Directors, upon their request, with a company car which may also be used privately. Among additional non-cash benefits is the conclusion of an occupational disability insurance, if so desired by the Board of Directors member. The members of the Board of Directors also receive extra allowances for their health insurance up to the maximum amount of the employer's portion for voluntarily insured persons as well as reimbursement for expenditures incurred in the course of their work.

In addition, the company as the policy holder has concluded an asset damage liability insurance for the benefit of the members of the Board of Directors (D&O insurance), which covers the liabilities arising from their activities as members of the Board of Directors to the extent legally required. The legally required minimum deductible is taken into consideration.

In the event of a premature termination of an employment contract by the Supervisory Board or a premature, mutually agreed contract termination, every board member receives a severance payment in the amount of 1.5 times the fixed annual compensation plus all variable compensation components attained by this point in time. A prerequisite is that the contract, in the event it was prematurely terminated

by the Supervisory Board, was not terminated due to a premeditated breach of duty or gross negligence or because of a dismissal as member of the Board of Directors for good reason. In case of a premature termination of the employment contract after the notification of a change of control, the Board of Directors contracts also stipulate a severance payment in the amount of two times the fixed annual compensation plus all variable compensation components attained by this point in time plus the total variable compensation components maximally attainable for the remainder of the original contract term discounted at 5%. It is, however, in this case of no importance whether the contract has been terminated by the company or whether the parties mutually agreed to the termination.

There are also regulations in place in case of a temporary work disability, a permanent work disability or in the event of the death of a member of the Board of Directors. The board employment contracts stipulate that in the event of a temporary work disability compensation is paid during the time the work disability persists, taking into account the health insurance payments, and is paid up to six months, but at most until the end of the agreed term of the employment contract of the respective board member. In case of a permanent work disability, the employment contract of the respective board member ends at the end of the quarter in which the permanent work disability was determined. In the event that a board member dies, compensation is paid for the month in which the board member died and the following three months, but no longer than the end of the agreed term of the respective employment contract. Moreover, the variable compensation components for the respective year that have become due by the respective board member's time of death shall be paid.

The compensation of the members of the Supervisory Board is decided by the Annual General Meeting. The members of the Supervisory Board receive a fixed compensation (€ 20 thousand p.a.) as well as an attendance fee for each meeting that they attend in person. In addition, they receive reimbursements for expenses that they have incurred in conjunction with their work.

Furthermore, all members of the Supervisory Board receive a performance-based variable compensation starting with a positive result of € 0.05 per share according to the IFRS, as applied in the EU, whereby the maximum amount is limited to € 20 thousand per annum and member. The chairman receives twice as much, respectively.

The compensation of the members of the Scientific Advisory Board is based on the rules of internal procedure adopted by the Board of Directors and Supervisory Board and is between € 10 thousand and € 30 thousand p.a. In addition, the members of the Scientific Advisory Board receive compensation for attending meetings.

Additional respective information can be found in the Notes to the annual financial statements.



## Information subject to Section 289 Para. 4 HGB

On December 31, 2010 the share capital of the corporation amounted to € 11,243,348 divided into 11,243,348 ordinary bearer shares with no par value (individual share certificates). The shares have been fully paid and have been authorized for trading on the regulated market (prime standard) at the Frankfurt Stock Exchange.

To the knowledge of the Board of Directors there are no restrictions which affect the voting rights or the transfer of shares, even though those could arise from agreements between shareholders.

The company received the following notices regarding direct or indirect investments in their share capital 10% of the voting rights, pursuant Section 21 Securities Trading Act (WpHG):

→ Bâloise Holding, Basel, Switzerland: 14.97%
(according to a notice dated April 28, 2008)
The voting rights are to be allocated to Bâloise Holding to the full extent pursuant to Section 22 Para. 1 Clause 1 No.1 WpHG. The group of companies controlled by Bâloise Holding whose percentage of voting rights in MOLOGEN amount to 3% or more is as follows (starting with the highest): Bâloise Holding, Basel, Switzerland, holds 100% of the shares and voting rights in Bâloise Delta Holding S.A.R.L., Bertrange, Luxemburg. Bâloise Delta Holding S.A.R.L., Bertrange, Luxemburg, holds 100% of the shares and voting rights in Basler Versicherung Beteiligungs-GmbH. Basler Versicherung Beteiligungs-GmbH holds respectively 100% of the shares and voting rights in Deutscher Ring Lebensversicherungs-AG and Deutscher Ring Sachversicherungs-AG.

→ Mr. Ferdinand Graf von Thun und Hohenstein, Germany: 10.80%
(according to a notice dated June 5, 2007)
The voting rights are to be allocated to Mr. Ferdinand Graf von Thun und Hohenstein pursuant to Section 22 Para. 1, Clause 1, No. 1 WpHG to the full extent by SALVATOR Vermögensverwaltungs GmbH, Munich.

The corporation has not received any further notifications pursuant Section 21 Securities Trading Act (WpHG) of direct or indirect shareholdings exceeding 10% of the voting rights.

There are no owners of shares with privileges or another control over voting rights.

The following rights are associated with the shares of the corporation: The additional rights and duties are stipulated by the German Stock Corporation Act (AktG). The appointment and dismissal of the members of the Board of Directors is based on Sections 84 et seq. AktG. Amendments to the bylaws are based on the stipulations of Sections 179 et seq. AktG in conjunction with Section 20 of the bylaws of MOLOGEN. Furthermore and pursuant to Section 15 of the bylaws of MOLOGEN, the Supervisory Board is authorized to adopt amendments to the bylaws which only affect its version.

The shareholders have granted the Board of Directors the following authorizations to issue new shares or issue conversion rights or to buy back its own shares:

Pursuant to Section 4 Para. 3 of the bylaws, the Board of Directors is authorized to increase the share capital of the corporation by June 6, 2015, with the approval of the Supervisory Board, by issuing new non-par value bearer share certificates as a one-time event or multiple times against in-kind and/or cash contributions, however, not to exceed a total of € 5,327,674 (authorized capital) and thereby to stipulate a start of the profit sharing that deviates from the law pursuant to Section 23 Para. 2 of the bylaws. The new shares can also be assumed by a credit institution or consortium of credit institutions stipulated by the Board of Directors with the obligation to offer those to the shareholders for subscription (indirect pre-emptive subscription right).

The Board of Directors is also authorized to exclude the pre-emptive subscription right of the shareholders, respectively with the approval of the Supervisory Board,

a) to the extent that this is necessary to compensate for fractional amounts
b) if the capital increase does not exceed ten one hundredths of the share capital and the issued value does not significantly fall below of the price of the already publicly traded shares of the company at the time of the final determination through the Board of Directors, or
c) for capital increases through in-kind contributions for the acquisition of companies, company shares or investments in companies as well as assets that are beneficial or useful for the operation of the company, such as e.g. patents, licenses, trademark protected user and utilization rights as well as other rights in intangible assets.

The Board of Directors has been authorized to determine the additional details of the issuance of new shares with the approval of the Supervisory Board.

In addition, there is conditional capital 2007 available in the amount of up to € 179,234 according to Section 4 Para. 4, conditional capital 2009 in the amount of up to € 218,149 according to Section 4 Para. 6 of the bylaws und conditional capital 2010 in the amount of € 610,151 according the Section 4 Para. 7 of the bylaws. This conditional capital is used for the issuance of warrant and conversion rights to the members of the Board of Directors and employees of the company or its subsidiaries.

Furthermore, pursuant to Section 4 Para. 5 of the bylaws a conditional capital 2008 in the amount of up to € 3,770,739 is used to issue convertible or warrant bonds. Until June 1, 2013, the Board of Directors is authorized to issue convertible and/or warrant bearer and/or registered bonds once or multiple times with a total nominal value of up to € 10,000,000 with a term of up to 10 years.

Finally, the Board of Directors has been authorized to repurchase the company's own shares (treasury shares) by June 7, 2015 pursuant to Section 71 Para. 1 No. 8 German Stock Corporation Act (AktG) for a volume of up to 10% of the share capital for purposes other than the trade with treasury shares. Treasury shares that have been acquired based on this authorization may also be sold in a different way than through the stock exchange or through an offer to all shareholders. The pre-emptive subscription right of the shareholders to these treasury shares has been excluded in this respect. The Board of Directors is also authorized to partially or fully cancel the repurchased treasury shares with the approval of the Supervisory Board without a further resolution through an Annual General Meeting.



## Statement concerning the corporate management pursuant to Section 289a HGB

The explanation concerning the corporate management pursuant to Section 289a HGB includes information referencing the corporate management practices, the description of the corporate management practices of the Board of Directors and Supervisory Board and the compliance statement with respect to the German Corporate Governance Code. The statement concerning the corporate management in accordance with Section 289a HGB is part of the Management Report, which, together with the annual financial statements pursuant to HGB as well as the individual financial statements pursuant to Section 325 Para. 2a HGB in accordance with the IFRS, as applied in the EU, is reflected in the annual report. After publication, the annual report can be viewed on the company website at www.mologen.com.

### INFORMATION REGARDING CORPORATE MANAGEMENT PRACTICES

The corporate management practices of MOLOGEN comply with statutory provisions and requirements. The company and its employees act based on moral and ethical principles, which lead to fair, respectful and legally compliant behavior. In view of the manageable size of the company, flat hierarchies and the personal work relationships of employees and partners, no further corporate practices are required. The management and monitoring of the company take place in compliance with statutory provisions and societal norms and adhere to a multitude of provisions and regulations of the German Corporate Governance Code (Deutscher Corporate Governance Kodex).

The structure of the corporate management and supervision of MOLOGEN is as follows:

#### Shareholders and Annual General Meeting

The shareholders of MOLOGEN exercise their rights during the Annual General Meeting. The Annual General Meeting of MOLOGEN takes place within the first eight months of the financial year. The Annual General Meeting is chaired by the Chairman of the Supervisory Board or by another Supervisory Board member who is to be specified by the Supervisory Board. The Annual General Meeting decides over all responsibilities assigned by law (including the election of the Supervisory Board members, amendments to the bylaws, profit allocation, capital measures).

#### Supervisory Board

The Supervisory Board conducts its business pursuant to the regulations set forth by laws, the bylaws, and its corporate terms and conditions. The central objective of the Supervisory Board consists in a consulting function and supervision of the Board of Directors. The Supervisory Board is also integrated in the planning and strategy of the company. Currently, the Supervisory Board of MOLOGEN consists of three members. Based on the fact that the Supervisory Board only consists of three persons, the Supervisory Board has not formed any committees.

### Board of Directors

In its role as the management body for the company, the Board of Directors manages the business of the company, and within the framework of the stipulations according to the German Stock Corporation Act, it is subject to the interests and the business policy-related principles of the company. The members of the Board of Directors manage the business of the company with the prudence of a proper and diligent business manager according to the stipulations of the law, the bylaws, the terms and conditions, the schedule of responsibilities and its service agreements.

The Board of Directors reports to the Supervisory Board in a regular, timely and extensive fashion about all essential questions concerning the business development, the corporate strategy as well as the risk management and compliance.

### Transparency

MOLOGEN puts great emphasis on the unified, extensive and timely information of the capital markets and the interested public. The reporting about the state of business and the performance of MOLOGEN takes place through the annual report, during analyst, press and telephone conferences, in the quarterly reports, in the semi-annual report and as part of the Annual General Meeting.

In addition, information concerning press releases or ad-hoc announcements is published. All notices, presentations and messages can be found on the Internet at www.mologen.com.

As stipulated, MOLOGEN keeps an insider directory pursuant to Section 15b Securities Trading Act (Wertpapierhandelsgesetz – WpHG). The persons listed in the directory have been informed about the legal obligations and penalties.

### Accounting and audit

The annual financial statements of MOLOGEN are prepared according to the provisions of the German Commercial Code (HGB). In addition, the company prepares individual financial statements (Einzelabschluss) in accordance with Section 325 Para. 2a HGB according to the IFRS as applied in the EU. After they are prepared by the Board of Directors, the annual financial statements and individual financial statements are audited by an auditor and adopted by the Supervisory Board. The annual financial statements and individual financial statements are published within 90 days after the end of the financial year as part of the annual report.

The auditor promptly reports to the chairman of the Supervisory Board regarding all essential questions and events with respect to the objective of the Supervisory Board which occurred during the audit.

### Risk management

A risk management system and an internal control system (ICS) have been established at MOLOGEN. In this context, the Board of Directors determines the scope and focus of the implemented systems on its own authority based on company-specific requirements.



The risk management system of MOLOGEN is continuously adapted to accommodate new requirements. The system is used for early identification of impacts that are the result of unfavorable development, a deficiency or failure of processes, persons, systems or risks due to external events. A detailed, scientific and financial controlling system, organizational safety measures as well as clearly regulated work processes can ensure appropriate planning in response to the risk situation as well as the control and coordination of even complex project activities.

The audit of the risk management system takes place through the internal control system (ICS) of MOLOGEN. Controls as part of the ICS are also conducted directly through the management board.

## CORPORATE MANAGEMENT PRACTICES OF THE BOARD OF DIRECTORS AND SUPERVISORY BOARD

Mologen AG is a corporation under German law with a dual management system consisting of the two executive bodies, the Board of Directors and the Supervisory Board. The Board of Directors and the Supervisory Board have a close, trusting and co-operative relationship.

MOLOGEN's CEO leads the operational business with focus on corporate strategy, research and development, business development and intellectual property. The CFO is also closely integrated in the operational activities with main focus on accounting, controlling, investor relations, and risk management. The project and division managers report on their projects and their individual departments directly to the Board of Directors.

The Supervisory Board appoints the members of the Board of Directors pursuant to Section 6 of the MOLOGEN bylaws. The Supervisory Board decides how many members should be on the Board of Directors, appoints them, decides whether or not there should be a chairman and decides whether or not to appoint deputy members or a vice chairman. The Supervisory Board adopts rules of procedure for the Board of Directors which includes a catalog of business items that require approval as well as a schedule of responsibilities. The chairman of the Supervisory Board decides whether members of the Board of Directors should participate in the meetings of the Supervisory Board. Finally, the Supervisory Board adopts rules of procedure for itself.

Since 2008, MOLOGEN's Board of Directors consists of two members, namely a CEO and a CFO. The allocation of duties between both members is the result of the schedule of responsibilities. The Board of Directors participates in all meetings of the Supervisory Board, reports in writing and verbally with regard to the individual agenda items and answers the questions of the individual members of the Supervisory Board.

The agenda will be presented to the members of the Supervisory Board in writing two weeks prior to the meeting.

The Supervisory Board usually takes advantage of the option to adopt resolutions by way of a written circulation procedure for cases that are particularly urgent.

Each year, the Chairman of the Supervisory Board outlines the activities of the Supervisory Board in its report to the shareholders and in the Annual General Meeting.

The Chairman of the Supervisory Board in particular meets with the Board of Directors on a regular basis and discusses current issues with the board. In addition to these meetings, the Board of Directors advises the Chairman of the Supervisory Board verbally as well as in writing of current developments.

## WORDING OF THE 2011 COMPLIANCE DECLARATION FOR THE GERMAN CORPORATE GOVERNANCE CODE (DEUTSCHER CORPORATE GOVERNANCE KODEX) PURSUANT TO SECTION 161 STOCK CORPORATION ACT (AKTG)

The Board of Directors and the Supervisory Board of Mologen AG (hereinafter: MOLOGEN) declare that the company has been in compliance with the recommendations of the German Corporate Governance Code in its current version of May 26, 2010 with the following exceptions:

### Shareholders and Annual General Meeting

The German Corporate Governance Code recommends the communication of the invitation to the Annual General Meeting to domestic and to international financial service providers, auditors, and shareholder associations by way of electronic media. Currently as well as in the future, this recommendation will not be followed due to the lack of technical conditions for a secure identification and addressing of the recipients.

### Co-operation of Board of Directors and Supervisory Board

The D&O insurance taken out for the Supervisory Board of MOLOGEN does not contain a deductible. The company does not think that the motivation and responsibility with which the members of the Supervisory Board fulfill their tasks could be improved by the introduction of a deductible for the D&O insurance.

As of July 1, 2010, the D&O insurance taken out for the Board of Directors contains the required deductible.

### Board of Directors

The detailed compensation report is part of the Notes to the annual financial statements and is reflected in the annual report of MOLOGEN. The annual report will be accessible on the Internet pages of the company or will be mailed upon request. The referenced information is therefore accessible to the shareholders of the corporation. As it has been in the past, a repeated statement in the corporate governance report will therefore be foregone.

The basic principles of the compensation system for the Board of Directors as well as its amendments are explained in the management report and are stated again in the annual report. The Annual General Meeting has not been and will not be separately informed about the compensation system again, since the relevant information, as described above, is part of the annual report and thus available to all shareholders.



### Supervisory Board

The German Corporate Governance Code recommends to strive for diversity in the composition of the Board of Directors and to include women in a reasonable manner. MOLOGEN's Board of Directors consists of two people, which, on principle, makes a special consideration of women and minorities impossible. The Supervisory Board finds it appropriate if the selection of the member of the Board of Directors is not made dependent on criteria such as gender, sexual orientation or race, but rather on personality and expert knowledge. Hence, this recommendation was not complied with.

The German Corporate Governance Code furthermore recommends determining an age limit for members of the Board of Directors. The current contracts of employment of the board members of MOLOGEN have a fixed term and will not be extended automatically. As in the past, the Supervisory Board will consider the age of the candidate in its decision with respect to the re-issuing of an employment contract for the members of the Board of Directors and will adjust the term of the contract respectively if necessary. A particular age limit has therefore not been determined, nor will it be determined.

### Responsibilities and authorities of the chairman of the Supervisory Board Formation of committees through the Supervisory Board

The Supervisory Board of MOLOGEN consists of three members. Due to the low number of members it has not formed any committees in the past. No auditing or nomination committees have therefore been established in the past. As long as the number of members of the Supervisory Board is so low, committees will not be formed in the future either.

### Composition of the Supervisory Board

According to the German Corporate Governance Code, the Supervisory Board is to name specific goals for its composition, which, while taking into consideration the company-specific situation, account for the international activities of the company, potential conflicts of interest, a specific age limit for the members of the Supervisory Board and diversity. These specific goals are to provide for a reasonable inclusion of women in particular. Supervisory Board proposals to the responsible electing bodies are to account for these goals. The goals of the Supervisory Board and their implementation status are to be published in the corporate governance report.

After the introduction of the diversity requirement in the Code, one new appointment to the Supervisory Board took place, through which, in view of the Supervisory Board, the diversity requirement has been met. The Supervisory Board, however, has not set any specific goals for its composition. Therefore, by way of precaution, a deviation is being declared according to number 5.4.1 (2) and (3) of the German Corporate Governance Code. The Supervisory Board will in the future, as far as possible, take diversity aspects into account. The Supervisory Board, however, finds it appropriate if the selection of future members of the Supervisory Board is not made dependent on criteria such as gender, sexual orientation or race, but rather on personality and expert knowledge.

The determination of an age limit is not intended for the Board of Directors or the Supervisory Board because the company generally is to benefit from the expertise of experienced members of the Board of Directors and the Supervisory Board. An exclusion based solely on age does not seem to be appropriate to the Supervisory Board, especially in view of the fact that the term of office legally stipulated and specified in the company's bylaws for the members of the Supervisory Board allows a reasonable amount of time for the mandates.

### Compensation of the Supervisory Board

According to the German Corporate Governance Code, the members of the Supervisory Board are to also receive a performance-based compensation aside from the fixed compensation. The Annual General Meeting on June 7, 2010 resolved that the compensation of Supervisory Board members in the future will contain, aside from a fixed, also a performance-based component, which is also based on the long-term company success. This provision of the German Corporate Governance Code will thus be complied with in the future.

The compensation paid to the members of the Supervisory Board as well as the compensation or benefits granted for personal performance have been and will be disclosed separately for the entire Supervisory Board in a respective line item in the Notes to the annual financial statements in accordance with statutory requirements. According to the opinions of the Board of Directors and the Supervisory Board these measures provide for sufficient transparency. A separate description in the corporate governance report will therefore not be provided.

### Transparency

The German Corporate Governance Code recommends that the ownership of shares or financial instruments related to shares, derivatives in particular, held by individual members of the Board of Directors or Supervisory Board must be stated in the event that it, directly or indirectly, amounts to more than 1% of the shares issued by the company. If the total assets of all members of the Board of Directors or Supervisory Board exceed 1% of the shares issued by the company, the total assets for the Board of Directors and the Supervisory Board shall be listed separately. This recommendation has not been followed and will also not be followed in the future. A publication of this information takes place in accordance with legal requirements and in the legally stipulated manner, which, according to the Board of Directors and Supervisory Board, creates sufficient transparency. An additional publication of such information in the corporate governance report has not taken place in the past and shall also not take place in the future.

### Accounting

Detailed information regarding stock option programs and similar securities-based incentives were and will be provided in the Notes to the separate financial statements in accordance with IFRS as well as in the annual report. The annual report will be accessible on the Internet pages of the company or will be mailed upon request. The specified information is thus available for shareholders of the company in a way that the Board of Directors and Supervisory Board will refrain from repeating such information in the corporate governance report.



## Economic environment

### OVERALL ECONOMIC DEVELOPMENT

The financial and economic crisis has led to the deepest recession of the post war era. However, the German economy emerged from the crisis showing the strongest growth since the German reunification. In 2010, the GDP grew by a price-adjusted 3.6%. At the same time, the growth basis extended significantly: more than two-thirds of the growth-stimulating factors came from inside the country. It was investments in equipment, construction and inventories, in particular, that showed a strong increase and thus contributed greatly to the growth. But demand by consumers and government also increased considerably. In total, the German economy thus managed to emerge from the crisis quicker and in better condition than other large industrial nations.

The recovery of the global economy is also underway, even if the speed of the recovery in individual economies still varies greatly. While emerging markets show solid growth rates, the growth in the industrial nations is more subdued. A closer look at the year 2010 will show that global activity noticeably weakened during the year after a strong start at the beginning of the year. Reasons for this weakening are, among other things, the more moderate growth rates of the emerging market countries, in comparison to the first half of the previous year.

In total, the economic growth in 2010, however, was considerably better than initially expected. The International Monetary Fund (IMF) estimated a global GDP growth of 5.0% for the past year. It thereby assumes that in 2010 the industrial nations achieved growth of 3.0% and the emerging market countries 7.1%. The growth in the USA for the past year is estimated to have been 2.8% and in the Eurozone 1.8%.

The IMF has again increased its projection for 2011 and now expects a growth rate of 4.4% for the global economy. In this regard, the growth in the emerging markets is estimated at 6.5% and in the industrial nations at 2.5%. For the USA, the IMF expects a growth rate of 3.0% and for the Eurozone 1.5%. In Germany, a GDP growth of 2.2% is expected. The projections for global trade are also positive. The IMF assumes a growth rate in the global trade volume for the past year of 12.0%. For 2011, it expects a growth of about 7.1%.

However, the effects of the crisis are still evident on the job market. In this regard, the USA as well as the Eurozone at year-end still showed a relatively high unemployment rate of 9.4% and 10.1%, respectively. The job market in Germany, however, continued to develop positively. Even if the unemployment rate in December, adjusted for season, has slightly grown for the first time in almost 18 months; at 7.5% it was still 0.6% below the rate at the beginning of 2010.

The interest rate level in the USA as well as in the Eurozone in 2010 remained on a very low level. The FED last year kept the federal funds rate unchanged at a range of 0% to 0.25%. The ECB similarly did not change its key interest rate of 1%.

**CHALLENGES FOR THE PHARMACEUTICAL INDUSTRY**

- Expansion of market share of generic products
- Budgeting of health-related expenses
- Regulatory and technological risks

### DEVELOPMENT OF THE PHARMACEUTICAL INDUSTRY AND THE BIOTECHNOLOGY SECTOR

In the past year, the global pharmaceutical market experienced an unexpectedly strong development. After the pharmaceutical industry grew by 7% globally to US$ 837 billion in 2009, the market research company IMS Health expects an average annual growth of 5 to 8% until 2014.

In its last projection, the IMS Health expected a growth of 4 to 5% for 2010, and in 2011 it already expects a growth of 5 to 7%. According to experts, the highest growth rates of more than 10% are expected in the oncology, diabetes, multiple sclerosis and HIV fields. The emerging markets are also growth drivers in this industry with expected growth rates of 15 to 17% on average in 2011.

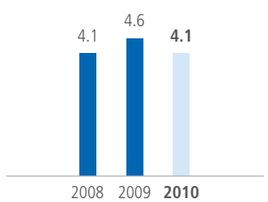
Nevertheless, the industry still faces great challenges. Core topics are the expansion of the market shares for generic drugs, budgeting for health expenditures as well as regulatory and technological risks. The patent protection of blockbuster products that expires within the next five years will further increase the innovation pressure on large pharmaceutical companies. The impact will be particularly felt in the U.S., since six of ten of the products with the highest sales will lose their patent protection between 2011 and 2012 there, and will then have to face the challenges posed by the generic products.

This development will lead to a growing integration and interdependence on the part of pharmaceutical and biotechnology companies. 2010 has been another year with a large number of extensive research and development co-operation projects.

The stock market environment for innovative biotechnology companies such as MOLOGEN continues to be seen as favorable over the long-term based on this development. Advancements in the area of MOLOGEN's clinical development programs are expected to have a continued positive impact on the perception of the company in the capital market.

In 2010, the recovery of pharmaceutical and biotechnology shares, similar to the overall market, has continued. As of December 31, 2010, the German pharmaceutical industry index "DAXsector Pharma & Healthcare" was approximately 11% higher than at the beginning of the year. The MOLOGEN stock can also look back on a positive conclusion of 2010. Clearly recovered from the lows in November and December, which lay between € 7.50 and € 8.00, the MOLOGEN stock ended the year 2010 at € 8.60. The stock price was thus about 18% higher than its value at the beginning of the year, which was € 7.29.

**R&D expenses (HGB) in million €**




## Business development

### RESEARCH AND DEVELOPMENT (R&D)

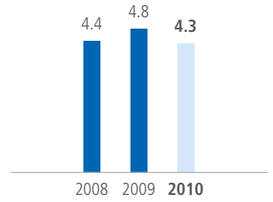
MOLOGEN's objective is to develop highly innovative drugs based on proprietary platform technologies to treat cancer and severe infectious diseases. In the financial year 2010, it was possible to achieve important advancements within the research and development strategy of the company.





The achievement of the milestones in the R&D area presents an important basis for the further positive development of the company. In the financial year 2010, measures and investments in the amount of € 4.1 million (pursuant to the German Commercial Code [HGB]) and € 4.3 million (pursuant to IFRS as applied in the EU) were carried out to benefit these milestones and were recognized on the income statement (comparison period: € 4.6 million [HGB] or, respectively, € 4.8 million ([IFRS]).

**R&D expenses (IFRS) in million €**




### CANCER MEDICINE MGN1703 (COLORECTAL CANCER)

The core of the R&D activities in the reporting period focused on the clinical development program for the DNA-based cancer medicine MGN1703. MGN1703 is being developed for DNA-based immune therapy for patients with metastasized tumors and is based on the immunomodulator dSLIM® ("double Stem Loop Immunomodulator"). The dSLIM® molecule, a proprietary development of MOLOGEN, is an innovative, DNA-based TLR9 agonist, which activates the immune system of the patient on a broad spectrum by targeting specific immune cells on different receptors, primarily the toll-like Receptor 9 (TLR9). This is to enable the immune system to overcome the fatal tolerance toward cancer cells and to specifically attack them.

In the previous phase Ib study, MGN1703 had shown a positive safety profile and an excellent tolerance. Moreover, the clinical response of patients to the cancer drug had significantly exceeded expectations.

The analysis of an additional sequence of clinical data from the already completed phase Ib study in the financial year 2010 was able to scientifically confirm the active principle for MGN1703. The analysis of patients' immune system biomarkers was exemplary in showing the impact MGN1703 had on the immune system of cancer patients. It had been possible to show that the patients' immune system was broadly activated, and this in a way that is necessary for the successful treatment of malignant tumors. This data, generated in the clinical study, confirms the results shown in pre-clinical tests and in-vitro studies.

As part of the project, the clinical phase II/III study, for which an application had been submitted in the financial year 2009, was initially prepared in the reporting period. After the official approvals had been granted for the execution of the phase II/III study by the competent authorities in Germany and Austria at the beginning of March 2010, the study could be started and the first patients treated with MGN1703 in June 2010 after permission was granted by the responsible ethics commissions of both countries. In November 2010, the study was also approved in France, which meant that the research centers involved could start with the study.

The randomized, placebo-controlled, double-blind, multi-center clinical phase II/III study ("IMPACT" study) has been designed as an approval-relevant confirmatory study and is to prove the efficacy of MGN1703 with statistical significance. In the course of the study, MGN1703 is administered to the patients twice a week by way of subcutaneous injections (injections under the skin). The treatment will be continued until a renewed progression of the cancer can be determined. The goal is to prevent a relapse of the patients or the renewed progression of the illness for significantly longer than is currently possible with the already approved drugs. The primary

goal of the study is therefore to determine the progression-free survival of patients with advanced colorectal cancer as well as the determination of the total survival rate of patients. Additional goals of the study are to compile immunological and pharmacodynamic parameters.

129 patients who previously have only been treated with a standardized chemo-immunotherapy as the first-line treatment are to participate in the clinical phase II/III study. In contrast to the patients of the previous phase Ib study, the immune systems of the patients in this study will thus not have been harmed by several previous therapy lines and a higher tumor count. It is expected that this will cause patients to respond even better to the MGN1703 therapy.

The clinical study will be conducted in several clinical study centers and may have a duration of up to three years. Professor Dr. Hans-Joachim Schmoll, Director of the University Clinic and Polyclinic for Internal Drug IV at the University Clinic Halle will be leading the study. In addition to the study centers in Germany, Austria and France, additional study centers in other countries are to join the study as soon as the local approvals have been received.

A first statement with respect to achieving the goals of the study is expected to be available after an interim evaluation, which is planned for mid-2011.

### CANCER MEDICINE MGN1601 (RENAL CANCER)

The procedure developed by MOLOGEN for a cell-based gene therapy for renal cancer, under the project name MGN1601, is a therapeutic inoculation (vaccination) to fight advanced tumors of the kidney and to prevent their recurrence after an operation and medication-based treatments.

The drug candidate MGN1601, has received orphan drug status by the European Drugs Agency (EMA). This provides MOLOGEN with a ten-year exclusive marketing period for the product within the European Union. The orphan drug program of the European Union is to support the development of therapies for rare and severe illnesses.

The preparation for a clinical phase II/III study with MGN1601 was further advanced in the reporting period. In June 2010, the competent German health authority, the Paul-Ehrlich-Institut, approved the execution of a clinical phase I/II study with MGN1601. The competent ethics commission also approved the execution of the study.

The study was started in December 2010 and the first patient was treated with the drug candidate.

The clinical study phase I/II ("ASET" study) is to study the safety and efficacy of MGN1601. Twenty-four patients suffering from advanced kidney cancer, for which the standard therapy has not shown any success, are to be included in the open, single-arm, non-randomized, multi-center proof of principle study. As part of the initial therapy phase of the study, the patients are treated several times with MGN1601 over a time period of 12 weeks. Patients who respond to the therapy will then be treated and observed in specified intervals as part of a therapy expansion.





The primary objective of the study is the documentation of the safety and tolerability data of the drug. In addition to this data, the efficacy data, which contains the clinical, immunological and radiological parameters of the patients, will also be collected. Safety information and initial, preliminary efficacy data for MGN1601 will be available after the first therapy phase. As part of a therapy expansion, additional safety and efficacy data for MGN1601 will be collected in a prolonged application of the drug.

The clinical study is headed by private lecturer Dr. med. Steffen Weikert, deputy clinic director of the Urology Clinic at the Charité – Universitätsmedizin Berlin and is to be conducted at a total of three study centers in Germany. The participating clinical study centers will be the Charité in Berlin, the University Clinic in Bonn and the Medizinische Hochschule (medical college) in Hanover.

### DNA VACCINE AGAINST LEISHMANIASIS

MOLOGEN has also made progress in developing a MIDGE®-based DNA vaccine against leishmaniasis in humans. As a member of an international project consortium, the corporation received a financial subsidy for the years 2009 until 2011 to develop a pre-clinical DNA vaccine against this infectious disease. The assistance is granted as part of the 7th Framework Programme of the European Union. Support for the project, which spans three years, totals € 3.0 million. The project was started according to plan and successfully in January of 2009 and MOLOGEN had already received an initial advance payment of € 0.6 million. Additional pre-clinical tests were conducted with the newly developed vaccine during the reporting period. The findings to date were presented at the scientific colloquium "Neglected Protozoan Diseases" which was held by the European Commission at the Institut Pasteur in Paris in September 2010.

MOLOGEN has made no noteworthy progress, however, in developing a MIDGE®-based DNA vaccine against leishmaniasis in animals. However, compared to the other drug candidates, this product candidate has only very limited market potential, so that a delay in conjunction with this project does not have any significant impact on the situation of MOLOGEN.

### DNA VACCINE AGAINST HEPATITIS B

In addition, MOLOGEN started a new research project. The goal of the project is to develop a new, highly effective vaccine against an infection with hepatitis B viruses in co-operation with the Dutch company Synvolux Therapeutics B.V. The vaccine is to be available for preventative (prophylactic) use as well as for treatment (therapeutic use). All the necessary pre-clinical studies will be carried out so that by the end of the project the vaccine will be available for testing in clinical trials. The project is being funded by the German Federal Ministry of Education and Research, as part of the EU's "EuroTrans-Bio initiative", with around € 0.3 million, which equates to a 50% share of funding. The project is to be concluded by the end of 2012.

### CO-OPERATION

In the financial year of 2010, MOLOGEN has co-operated with the following scientific institutes and facilities:

- Freie Universität Berlin: Research co-operation in the field of molecular biology. The company has been co-operating with the Freie Universität Berlin (FU-Berlin) for many years in the field of basic research. To regulate the further co-operation and particularly for the regulation of the marketing opportunities for the inventions and protected rights arising from this co-operation, MOLOGEN and FU-Berlin concluded a new co-operation agreement in the financial year 2010. The goal in this respect is also to discover and continue development of promising technologies in the future. As part of the co-operation, the parties resolved on the construction and financing of a "MOLOGEN Stiftungsinstitut für Molekularbiologie und Bioinformatik" (foundation for molecular biology and bioinformatics, hereinafter "Stiftungsinstitut") at the FU-Berlin. MOLOGEN will support the Stiftungsinstitut, which will be headed by Prof. Dr. Burghardt Wittig, through a dependent foundation that is initiated by MOLOGEN financially as well as through in-kind sponsoring by way of providing personnel and materials.
- Clinical laboratory, Vetsuisse faculty of the University of Zurich, Switzerland: Research in the veterinary field, particularly with regard to cats.
- University of Veterinary Drug Hanover: research cooperation in conjunction with different veterinary-related medical applications.

## Financial performance and financial position (pursuant to the German Commercial Code)

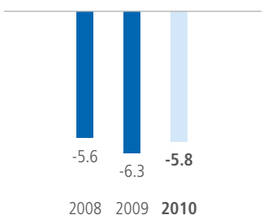
Overall, the financial performance and financial position of the company has developed according to schedule. Cash funds that were available at the end of the reporting period secure the coverage of short term financial needs of the company.

### RESULTS OF OPERATIONS

In the financial year 2010, sales revenue was at a low level with € 0.1 million similar to the previous year (comparison period: € 0.1 million) and results mostly from the sale of goods and services for research purposes. Other operating income, which mostly comes from subsidies, decreased slightly to € 0.4 million. The subsidies stem from the EU-support project for the development of a leishmaniasis vaccine for humans and to a smaller part from the funding project for the development of a hepatitis B vaccine, which is financially supported by the Federal Ministry of Education & Research.

In the reporting period, the annual deficit decreased to € 5.8 million (comparison period: € 6.3 million). The annual deficit was mainly attributed to activities for the further development of the product pipeline which resulted in research and development costs. Similar to the decrease of the annual deficit, the research and development costs also decreased in the reporting period. In total, the company invested € 4.1 million (previous year: € 4.6 million) in research and development projects during the past financial year.

**Net income/net loss for the year (HGB) in million €**




Particularly expenditures for material totaling € 1.1 million (previous year: € 2.2 million) decreased considerably in the reporting period because the raw materials which were required in the previous year during the preparation of the clinical studies for the production of investigational medicinal products were no longer needed in the reporting period.

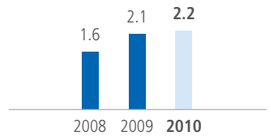
Other operating expenses increased to € 2.7 million (previous year: € 2.2 million) in the reporting period. The increase was caused by an increased utilization of external advisors and service providers in the fields of patents and brands as well as corporate communication and investor relations.

In the area 'other expenses', the research expenditures have increased due to the co-operation with the FU-Berlin and, accordingly, the support of the "MOLOGEN Stiftungsinstitut für Molekularbiologie und Bioinformatik". Moreover, increased auditing and consulting costs were incurred in connection with the capital increases conducted in the financial year 2010 and the preparation and creation of a securities prospectus for the capital increase conducted in January 2011. Finally, higher costs were also incurred in connection with the execution of the clinical studies, which led to an increase in other operating expenses. In this regard particularly the premiums for the insurances taken out during clinical studies, fees for the authorization notices of the relevant competent authorities and the responsible ethics commissions as well as translation costs must be named.

Compared to the previous year, personnel expenses have slightly increased by € 0.1 million to € 2.2 million. The increase in personnel expenses as compared to the previous year period is particularly due to one-time effects from bonus payments and salary adjustments.

In the reporting period, the number of employees was on average 41 (excluding corporate management and part-time employees; previous year: 40). On December 31, 2010, the number of employees was 44, the same as on the prior year's reporting date (including corporate management and part-time employees).

**Personnel costs (HGB) in million €**




### FINANCIAL SITUATION AND LIQUIDITY DEVELOPMENT

MOLOGEN has a risk management in place for the identification, measurement and management of risks which may occur due to existing financial instruments. The risks stem from effected and planned cash income and expenses and can take the form of default, liquidity and exchange rate risks. Interest risks, essential currency risks and other price risks do not exist, because the majority of the financial instruments utilized by the company cover trade receivables and payables, liquid assets, other lending, and granted loans.

The financial status of MOLOGEN presented on the statement of financial position continues to be characterized by a high percentage of liquid assets as part of total assets. These liquid assets (cash and cash equivalents) account for 67% (12/31/2009: 72%) of the total assets. On December 31, 2010, cash and cash equivalents amounted to € 4.7 million (12/31/2009: € 6.2 million). A capital increase that was entered into the Commercial Register in July 2010 as well as the exercise of employee stock options and the related cash inflow at least partially offset the outflow of equity and cash funds caused by the company's business activities.

- Revenues of € 0.1 million (2009: € 0.1 million)
- Net loss for the year of € 5.8 million (2009: net loss for the year of € 6.3 million)
- EBIT of € -5.9 million (2009: € -6.4 million) Average monthly net utilization of cash funds of € 0.5 million (2009: € 0.5 million)
- Cash and cash equivalents of € 4.7 million (2009: € 6.2 million) [figures according to HGB]

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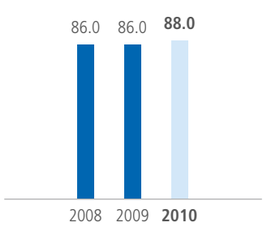
In the past financial year, Mologen AG was always able to service its financial obligations.

Cash flow from operating activities were mainly put into research and development and at € 6.1 million were above the previous year's level (previous year: € 5.5 million). The recognition of subsidies on the statement of financial position for which MOLOGEN had received an advance payment already in the financial year 2009, advance payments to the Stiftungsinstitut and for services are the main components of this item.

Cash flow from financing activities was € 4.7 million and thus noticeably below the previous year figure of € 8.4 million. The capitalization measures conducted in the reporting period were less extensive and thus led to a lower inflow of funds.

The cash outflow in conjunction with investing activities in comparison to the previous year decreased by € 53 thousand to € 49 thousand due in particular to fewer investments in technical equipment for the research and development area.

**Equity ratio (HGB)**
**in %**




### FINANCIAL POSITION

Assets have decreased from € 8.6 million to € 7.1 million. This is primarily due to the outflow of cash funds. Equity has decreased by € 1.2 million to € 6.2 million; at 88% the equity ratio is two percentage points above the value from the prior year's reporting date.

At € 0.4 million the scheduled amortization of assets is slightly below the prior year's level (€ 0.5 million). The decrease in amortization is caused by the diminishing remaining useful life of the individual assets in tangible assets.

## Financial performance and financial position (pursuant to the IFRS as applied in the EU)

Overall, the financial performance and financial situation of the company has developed as planned even in accordance with the IFRS as applied in the EU.

### RESULTS OF OPERATIONS

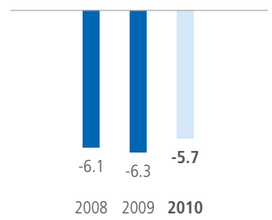
In the financial year 2010, sales revenue was at a low with € 0.1 million similar to the previous year (comparison period: € 0.1 million) and results mostly from the sale of goods and services for research purposes. Other operating income rose to € 0.4 million mostly from grants and was therefore slightly above the value of the previous year (€ 0.3 million). The subsidies stem from the EU-support project for the development of a leishmaniasis vaccine for humans and to a smaller part from the funding project for the development of a hepatitis B vaccine, which is financially supported by the Federal Ministry of Education & Research.

In the reporting period, the annual deficit decreased to € 5.7 million (comparison period: € 6.3 million). The annual deficit was mainly attributed to activities for the further development of the product pipeline which resulted in research and development costs. Similar to the decrease of the annual deficit, the research and development costs also decreased in the reporting period. In total, the company invested € 4.3 million (previous year: € 4.8 million) in research and development projects during the past financial year.

Particularly expenditures for material totaling € 1.1 million (previous year: € 2.2 million) decreased because the raw materials which were required in the previous year during the preparation of the clinical studies for the production of investigational medicinal products were no longer needed in the reporting period.

Other operating expenses increased to € 2.1 million (previous year: € 1.8 million) in the reporting period. The growth was caused by an increased utilization of external advisors and service providers in the fields of patents and brands as well as corporate communication and investor relations. In 'other expenses', the research expenditures have increased due to the co-operation with the FU-Berlin and, accordingly, the support of the "MOLOGEN Stiftungsinstitut für Molekularbiologie und Bioinformatik". Finally, higher costs were also incurred in connection with the execution of the clinical studies, which led to an increase in other operating expenses. In this regard particularly the premiums for the insurances taken out during clinical studies, fees for the authorization notices of the relevant competent authorities and the responsible ethics commissions as well as translation costs must be named.

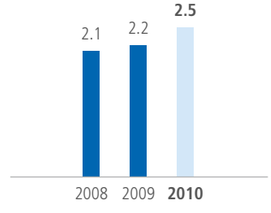
**Net income/net loss for the year (IFRS)**
**in million €**




At € 2.5 million personnel expenses were significantly above the previous year's level (€ 2.2 million). The increase is caused by one-time effects from bonus payments and salary adjustments as well as the issuance of employee options as part of the stock option programs (expenditures from the issuance of employee stock options for the financial year 2010: € 369 thousand; comparison period: € 279 thousand).

In the reporting period, the number of employees was on average 41 (excluding corporate management and part-time employees; previous year: 40). On December 31, 2010, the number of employees was 44, the same as on the prior year's reporting date (including corporate management and part-time employees).

**Personnel costs (IFRS)**
**in million €**




### FINANCIAL SITUATION AND LIQUIDITY DEVELOPMENT

Pursuant to the IFRS, as applied in the EU, the financial status of MOLOGEN presented on the statement of financial position continues to be characterized by a high percentage of cash funds as part of the total. These liquid assets (cash and cash equivalents) account for 67% (12/31/2009: 72%) of the total assets. On December 31, 2010, cash and cash equivalents amounted to € 4.7 million (12/31/2009: € 6.2 million). A capital increase that was entered into the Commercial Register in July 2010 as well as the exercise of employee stock options and the related cash inflow at least partially offset the outflow of equity and liquid funds caused by operating activities.

MOLOGEN AG Annual Report 2010

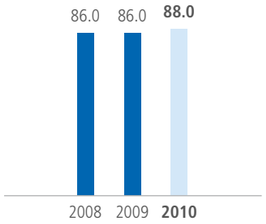


Cash and cash equivalents used for operational activities were mainly used for research and development and were at € 5.5 million above the previous year's level (previous year: € 5.1 million). The recognition of subsidies on the statement of financial position for which MOLOGEN had received an advance payment already in the financial year 2009, advance payments to the Stiftungsinstitut and for services are the main components of this item.

Cash flow from financing activities was € 4.1 million and thus noticeably below the previous year figure of € 8.1 million. The capitalization measures conducted in the reporting period were less extensive and thus led to a lower inflow of funds.

The cash outflow in conjunction with investing activities in comparison to the previous year decreased by € 47 thousand to € 49 thousand due in particular to fewer investments in technical equipment for the research and development area.

**Equity ratio (IFRS)**
**in %**




### FINANCIAL POSITION

Assets have decreased from € 8.6 million to € 7.1 million. This is primarily due to the outflow of cash funds. Equity has decreased by € 1.2 million to € 6.2 million; at 88% the equity ratio is two percentage points above the value from the prior year's reporting date.

At € 0.4 million the scheduled amortization of assets is slightly below the previous year's level ( € 0.5 million). The decrease in amortization expenses is caused by the diminishing remaining useful life of the individual assets in tangible assets.

## Risk report

### RISK MANAGEMENT SYSTEM

MOLOGEN is a company researching and developing highly innovative product candidates while mostly utilizing proprietary technologies.

Each corporate transaction was based on the consideration of opportunities and risks. Risk management at MOLOGEN is conducted as part of a corporate strategy which makes the company subject to an extremely distinct opportunity-risk profile. A corporate success and the achievement of corporate objectives are mainly influenced by the management and the spreading of risks.

A risk management system and an internal control system (ICS) have been established at MOLOGEN for this purpose. In this context, the Board of Directors determines the scope and focus of the implemented systems on its own authority based on company-specific requirements.

The rapidly changing conditions on pharmaceutical markets caused by technological and health care-related political developments, the use of new technologies as well as the complexity of the business processes and the business model lead to complex control instruments. This requires risk management as a continuous process of the strategic corporate management. The underlying principle for this risk management process is the strategy that unambiguously regulates which risks are to be documented and controlled in due time. The identified risks are assessed. Countermeasures are adopted and assigned to responsible parties to control and reduce the identified risk potential. Since some risks are beyond the control of the Board of Directors, even appropriate and functional systems do not grant absolute assurance with respect to the identification or the control of the risks. In this respect, there may be developments which deviate from the plans of the Board of Directors.

The risk management system of MOLOGEN is continuously adapted to accommodate new requirements. The system is used for early identification of impacts that are the result of unfavorable development, a deficiency or failure of processes, persons, systems or risks due to external events.

A detailed, scientific and financial controlling system, organizational safety measures as well as clearly regulated work processes can ensure appropriate planning in response to the risk situation as well as the control and coordination of even complex project activities. Furthermore, the project progress is monitored and documented in regular intervals, if necessary together with the respective co-operation partners.

The audit of the risk management system takes place through the internal control system (ICS) of MOLOGEN. Controls as part of the ICS are also conducted directly through the company management.

The main objective of the risk management system was and is the monitoring of the liquidity status and the equity of the company. Since the sales revenue is mostly the result of one-time events, it is difficult to predict future revenues. The detailed monitoring of risks in conjunction with the liquidity and capital development is therefore of great importance for the continuation of the company.

Basic objectives of risk management systems in the area of the accounting processes are in particular the identification and assessment of risks that may present an obstacle to achieving regulatory compliance of the financial statements, the limiting and the checking of recognized risks with regard to their impact on the financial statements and the respective illustration of those risks. The objective of the ICS of the accounting process is to ensure sufficient security through the implementation of controls, so that in spite of the identified risks it is possible to create regulation-compliant financial statements.

Fundamental risks are identified, documented and monitored to achieve these goals. Authoritative operating instructions and checklists, which take identified risks into account, regulate the essential work processes and can be expanded if necessary. In turn, operating instructions and checklists are regularly checked through the ICS. This includes the verification of the compliance with proper bookkeeping, the status of cash and cash equivatents and the organization of the business processes through regular and random checks.

The following items are monitored in particular: accounts receivable and accounts payable invoices, bank statements and account balances, all incoming payments, payroll lists, reports to the Supervisory Board, quarterly statements, and contracts. The second important element of the ICS is the four-eyes-principle, which is being documented in particular through the signature authorizations with respect to payment transactions and the lack of authorization for sole representation of the management.

The functionality of the internal control and risk management system with regard to the accounting process is checked on a regular basis internally, mainly through management, as well as by an external party through the auditor during the audit of the annual financial statements.

MOLOGEN continues to improve its risk management. This puts management and employees in the position to recognize challenges in due time and to respond accordingly.

## COMPANY RISKS

The extraordinary revenue opportunities of the MOLOGEN business model are offset by technological, financial, regulatory, patent right-related and especially sales risks. Some of the individual risks are interdependent and can influence each other in a positive or negative way.

As a biotechnology company, MOLOGEN is mainly subject to the risks typical in the sector. Research and development of new drugs bears the risk that a new drug development does not feature the desired product characteristics, especially in the areas of efficacy and tolerability, or that these characteristics cannot be sufficiently proven. In particular, unforeseen problems with the current clinical and pre-clinical development of drug candidates could occur at MOLOGEN. If pre-clinical tests or clinical studies do not show the expected results, this could delay the further development of the respective drug candidate, increase associated expenses or even stop the further development. This could have a negative impact on the financial performance and financial position of the company.

The regulatory environment for drug development also bears industry-specific risks. MOLOGEN depends on official approvals for the execution of clinical studies, for the manufacturing of investigational medicinal products and to operate special facilities to conduct research work or manufacture active ingredients and investigational medicinal products. The delay, loss, expiration or rejection of such approvals can prolong the time it takes to develop the respective drug candidate, increase associated expenses or lead to the abandonment of the development. This could have a negative impact on the financial performance and financial position of the company.

In order to be able to fully realize the revenue potential, MOLOGEN not only depends on successful research and the development of its own technologies and product candidates, but also on the market developments for these product candidates. MOLOGEN has focused on the research and the development of innovative cancer therapies which continue to be in very high demand. The number of cancer cases continues to increase annually, just as the number of deaths caused by cancer.



The market for effective cancer drugs therefore continues to expand. The future development of the market depends, however, on various factors, such as the cost pressure of the health care systems, potential new legal regulations of the health care industry and the German pharmaceutical law. Certain developments can therefore have a negative impact on the market potential of MOLOGEN's drug candidates and can negatively impact the financial performance and financial position of the company.

The MOLOGEN business model is designed to pursue its own drug developments up to a certain point and to then license the drug candidates to another biotechnology company or a pharmaceutical partner. The number of such potential licensees is limited and relatively low in the area of large pharmaceutical companies. Another consolidation of the industry as it was observed over the last years could lead to a further reduction of the number of potential licensees. This could have a negative impact on the financial scope of the licensing agreement and therefore negatively impact the financial performance and financial position of the company.

Successful out-licensing of the product candidates depends on a multitude of different factors. In this regard, the potential of the product candidates in comparison to the competition becomes a decisive factor. In the event that competitors develop clearly superior drugs, this could significantly impact the prospects for lucrative out-licensing of the product candidates of MOLOGEN. The effective protection of the underlying expertise with respect to the product candidates is another important factor of successful out-licensing. Patent and license-related legal problems can prevent or delay respective business deals or diminish the economic attractiveness of the product candidates of MOLOGEN. Even if patents legally give an indication of their effectiveness, the granting of a patent does not necessarily mean that they are effective or that patent claims can be enforced to the required or desired degree. No guarantee can be given that patents will not be contested, declared invalid or bypassed. The possibility that MOLOGEN's patents could be violated by third parties can also not be excluded. At the same time, it also cannot be excluded that MOLOGEN itself will violate patent or property rights of third parties, since its competitors also apply for and are granted patents to a large degree and receive patent protection. If this were the case, MOLOGEN would be prevented in using the relevant technologies in the respective countries in which the property rights have been granted. There is no guarantee that MOLOGEN will be granted the required licenses in the future that it needs for business success in the requisite scope and at reasonable conditions. All this could have a negative impact on the financial performance and financial position of the company.

The involvement of MOLOGEN in non-European countries bears certain country-specific risks. As far as possible, MOLOGEN will try to take appropriate measures to protect itself against those risks. These risks could have a negative impact on the financial performance and financial position of the company.

In conjunction with the implementation of the business strategy, MOLOGEN was already able to conclude contracts with pharmaceutical, sales and marketing partners over the past financial years; however, the annual revenues that have been realized do not yet suffice to cover MOLOGEN's financing needs and ensure its profitability.

The company therefore continues to depend on the conclusion of these types of contracts. As long as the revenues from licensing and marketing agreements are not sufficient to cover the expenses of the company, the company also depends on other financing sources such as, for example, the capital market. If the scheduled conclusions of the business contracts are delayed or a financing from other sources is not possible or not possible to the required degree, this would have a negative impact on the financial performance and financial position of MOLOGEN.

Due to the fact that MOLOGEN has incurred losses in the previous financial years based on extensive research and development expenditures, these losses in the meantime have accumulated a relatively substantial deficit. It cannot be ruled out that additional losses which are associated with the business model of MOLOGEN may cause half of the share capital to be lost which would then be subject to a mandatory notification. Such an announcement could have a negative effect on the share price of MOLOGEN, and the obligatory immediate call for an extraordinary shareholders' meeting, which would be mandated by law in this case, would cause additional expenses.

Losing the services of members of the Board of Directors and other leading employees or staff in key positions can have negative effects on the financial performance and financial position of MOLOGEN. This could be caused by the loss of expertise, by costs that are incurred in conjunction with the hiring of new employees or higher salary demands from qualified candidates.

In addition, there may be financial risks due to the following legal disputes:

- The arbitration proceedings initiated in August 2009 before the German Institute for Arbitration by a MOLOGEN licensee were closed in October 2010. The request for arbitration of MOLOGEN's business partner was fully dismissed. The judgment handed down during the arbitration proceedings dealt with a cell-based gene therapy for cancer. It was passed with reference to the region of India and has the effect of a legally binding ruling and has in the meantime become uncontestable.
- In connection with a joint venture agreement that MOLOGEN terminated in 2006, in September 2009, court proceedings were initiated against a former business partner before a Saudi Arabian court of law. MOLOGEN demands the repayment of investments which were paid into the joint venture as well as the reimbursement of expenses. Overall, MOLOGEN's claims toward the former partner amount to € 1.5 million. During the litigation procedures, the defendant and former business partner claimed receivables in the amount of € 0.5 million, cost reimbursements in the amount of € 3 million and damages in the amount of at least € 20 million. Since this brief has not been forwarded to MOLOGEN's legal representatives and the proceedings initiated by MOLOGEN have in meantime been closed in the court of first instance, MOLOGEN is currently unable to determine whether the counterclaims really do exist and whether the former business partner plans to sue with regard to these potentially existing claims before another court. MOLOGEN currently sees no risk of a lawsuit being levied against it at this time.

Overall, the described risks are manageable and the continuation of MOLOGEN is not at risk at the time the report was compiled. The overall risk situation that is





based on the described individual risks has not changed significantly compared to the previous year. No fundamental change of the risk situation is anticipated from today's perspective.

### COMPANY OPPORTUNITIES

Specifically with regard to the drug candidates in clinical development, further important milestones will be reached over the short- and medium-term. The entry of product candidates into clinical studies, the conclusion of individual study phases and positive study results should, in MOLOGEN's view, result in a value appreciation of the respective product candidate, but also the entire company.

In addition, MOLOGEN plans to form partnerships with companies in pharmaceutical or biotechnology industries for its product candidates and to grant licenses for a commercial distribution of the product candidates.

If MOLOGEN manages to attain this goal, it would result, depending on the market potential and development status of the respective drug candidate, in significant license fee payments for MOLOGEN. In MOLOGEN's view, such a contract conclusion should also lead to a value appreciation for the company.

Moreover, large pharmaceutical or biotechnological companies are not only interested in acquiring licenses for promising drug candidates. There are frequent examples where companies with attractive technologies or product candidates have been acquired. In such an event, the bidding price is often significantly above the market value of the respective company. In such a scenario, the MOLOGEN shareholders would also profit.

## Information on relevant events after the end of the reporting period

On January 14, 2011, a member of the Supervisory Board, Mr. Ferdinand Graf von Thun und Hohenstein, resigned from his position on the Supervisory Board due to health reasons. Following a proposal made by the Board of Directors on that same day, Mrs. Susanne Klimek, CEO of Salvator Vermögensverwaltungs GmbH, was appointed the new member of the Supervisory Board on January 24, 2011 by the Berlin-Charlottenburg District Court.

On January 13, 2011, the MOLOGEN Board of Directors with approval of the Supervisory Board resolved to use the existing authorized capital in accordance with Section 4 Para. 3 of the bylaws and to conduct a capital increase with pre-emptive shareholders' rights. Through the issuance of up to 1,245,927 new shares, the share capital is to be increased by € 11.2 million to up to € 12.5 million. The cash inflow from the capital increase serves to strengthen the equity basis. It is to finance the further growth of the company through the extension of the product pipeline and the financing of the required ongoing business activities. The new shares are entitled to receive profit payouts or dividends starting January 1, 2010.

The subscription price for the shares offered during the subscription offering of up to 1,245,927 new shares was set on January 25, 2011 with the approval of the Supervisory Board at a price of € 8.00 per new share.

On February 1, 2011, it was announced that the 1,245,927 new shares had been fully placed. The gross issue proceeds raised by issuing the shares amounted to about € 10 million. After the entry of the capital increase into the competent Commercial Register on February 4, 2011, the share capital of the company is now € 12,459,275. The authorized capital has been partially utilized. The amount still available is € 4,081,747.

## Forecast

The internal planning system, which enables a forecast of the future development of the corporation, also considers experiences and developments from the past course of business. This internal planning system is checked regularly with the help of target/actual comparisons and is adapted to reflect current developments. It was possible to prove the reliability of the forecast for the 2010 business plan. The forecasts have been accurate and within the expected range, the development of MOLOGEN continued as planned in the past financial year.



Over the next two years, MOLOGEN will continuously and intensively drive the development of the product pipeline forward. The objectives for the 2011 financial year are:

- Continuation of the clinical phase II/III study to research the efficacy of the cancer medicine MGN1703 in the treatment of metastasized colorectal cancer as well as the execution of an interim analysis of the study,
- Continuation of the clinical phase I/II study to research the safety and efficacy of the cancer medicine MGN1601 in the treatment of advanced renal cancer,
- Continuation of the activities as part of an international project consortium for the development of a prophylactic and therapeutic vaccination against leishmaniasis in humans,
- Application for additional clinical studies with the cancer medicine MGN1703 to study the efficacy of the drug candidate in a further cancer indication and the obtainment of official approval as well as the approval of the competent ethics commission.

Furthermore, MOLOGEN is working on the conclusion of a license contract for the cancer drug MGN1703 with a partner from the pharmaceutical industry.

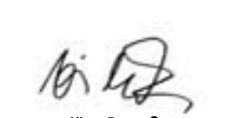
The development of the financial performance and financial position over the next two financial years depends essentially on the achievement of these objectives. The focus is thereby mainly on the clinical development programs for the cancer drug candidates MGN1601 and MGN1703. If the work on the respective projects is successful and the objectives can be achieved as planned, a positive development of the financial and earnings situation can be anticipated.

Additionally, the corporate strategy has been designed to focus on research and the further development of the innovative product pipeline to achieve higher rates of return over the mid-and long-term. To achieve this objective, income statement affecting measures and investments will therefore also be necessary in 2011 and in 2012, which will counter a short-term positive profit development. In light of this information, MOLOGEN anticipates another deficit especially for 2011 and an increase of the loss.

A successful further development of the product pipeline in 2010 and the good financial endowment form the basis for the company's continued positive development. The advancements in the clinical development programs planned for 2011 will continue to increase the value of the product pipeline. MOLOGEN therefore starts the new business year with good prospects of success.

Berlin, March 2, 2011
Board of Directors of Mologen AG

**Dr. Matthias Schroff**
Chief Executive Officer



**Jörg Petraß**
Chief Financial Officer

# IFRS STATEMENT OF FINANCIAL POSITION

**as of December 31, 2010**

| EUR'000 | Notes | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | **1,548** | **1,872** |
| Tangible assets | 1 | 173 | 187 |
| Intangible assets | 2 | 1,371 | 1,681 |
| Investments | 3 | 0 | 0 |
| Other non-current assets | 4 | 4 | 4 |
| | | | |
| **Current assets** | | **5,536** | **6,710** |
| Cash and cash equivalents | 5 | 4,722 | 6,174 |
| Trade receivables | 6 | 0 | 5 |
| Inventories | 7 | 24 | 20 |
| Other current assets | 8 | 780 | 491 |
| Income tax receivables | 8 | 10 | 20 |
| **Total** | | **7,084** | **8,582** |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Non-current liabilities** | | **80** | **86** |
| Deferred revenue | 9 | 80 | 86 |
| | | | |
| **Current liabilities** | 10 | **802** | **1,145** |
| Trade payables | | 416 | 513 |
| Other current liabilities and deferred revenue | | 380 | 627 |
| Liabilities to banks | | 6 | 5 |
| | | | |
| **Shareholders' equity** | | **6,202** | **7,351** |
| Paid-in capital | 11 | 11,213 | 10,143 |
| Deposits to effect the agreed capital increase, entered in the Commercial Register on Jan. 20, 2010 | | 0 | 3,574 |
| Capital reserve | 12 | 35,804 | 28,798 |
| Accumulated losses | 13 | -40,815 | -35,164 |
| **Total** | | **7,084** | **8,582** |



# IFRS STATEMENT OF COMPREHENSIVE INCOME

**for the period from January 1 to December 31, 2010**

| EUR'000 | Notes | Jan. 1 – Dec. 31, 2010 | Jan. 1 – Dec. 31, 2009 |
|---|---|---|---|
| Revenue | 14 | 89 | 53 |
| Other operating income | 15 | 379 | 308 |
| Cost of materials | 16 | -1,132 | -2,173 |
| Personnel expenses | 17 | -2,517 | -2,246 |
| Depreciation and amortization expenses | 18 | -372 | -471 |
| Other operating expenses | 19 | -2,149 | -1,823 |
| **Operating result** | | **-5,702** | **-6,352** |
| | | | |
| Finance costs | 20 | -1 | -1 |
| Finance income | 20 | 52 | 69 |
| **Profit for the year before tax** | | **-5,651** | **-6,284** |
| | | | |
| Tax income | 21 | 0 | 0 |
| **Net loss for the year/Comprehensive income** | | **-5,651** | **-6,284** |
| | | | |
| Net loss carried forward from the previous year | | -35,164 | -28,880 |
| **Accumulated losses** | | **-40,815** | **-35,164** |
| | | | |
| Basic earnings per share (in €) | 22 | -0.52 | -0.64 |
| Diluted earnings per share (in €) | 22 | — | — |

# IFRS STATEMENT OF CASH FLOWS

**for the period from January 1 to December 31, 2010**

| EUR'000 | Notes | Jan. 1 – Dec. 31, 2010 | Jan. 1 – Dec. 31, 2009 |
|---|---|---|---|
| | 23 | | |
| **Cash flows from operating activities** | | | |
| Net loss before taxes for the financial year | | -5,651 | -6,284 |
| Depreciation and amortization of fixed assets | | 372 | 471 |
| Loss on disposal of fixed assets | | 1 | 4 |
| Decrease in provisions | | 0 | -58 |
| Other non-cash expenses and income | | 141 | 290 |
| Change in trade receivables, inventories and other assets | | -274 | -10 |
| Change in trade payables and other liabilities | | -124 | 446 |
| **Net cash used in operating activities** | | **-5,535** | **-5,141** |
| | | | |
| **Cash flows from investing activities tangible assets** | | | |
| Purchase of property, plant and equipment, classified as investing activities | | -47 | -85 |
| Purchase of intangible assets, classified as investing activities | | -2 | -11 |
| **Net cash used in investing activities** | | **-49** | **-96** |
| | | | |
| **Cash flows from financing activities** | | | |
| Cash receipts from issue of capital | | 4,132 | 8,113 |
| **Net cash used in financing activities** | | **4,132** | **8,113** |
| | | | |
| **Foreign currency effect on cash and cash equivalents** | | | |
| | | 0 | -26 |
| **Total changes in liquidity (cash flow)** | | **-1,452** | **2,850** |
| | | | |
| **Cash and cash equivalents at the beginning of the period** | | **6,174** | **3,324** |
| | | | |
| **Cash and cash equivalents at the end of the period** | | **4,722** | **6,174** |



# IFRS STATEMENT OF CHANGES IN EQUITY

**for the period from January 1 to December 31, 2010**

| EUR'000, except share values | Paid-in capital | | Deposits made to effect the agreed capital increase | Capital reserves | Accumulated losses | Shareholders' equity |
|---|---|---|---|---|---|---|
| | Number of ordinary shares | Share capital | | | | |
| **As of Dec. 31, 2008** | **9,378,348** | **9,378** | **0** | **24,745** | **-28,880** | **5,243** |
| Capital increase in exchange for cash contributions | 425,000 | 425 | 3,574 | 2,055 | | 6,054 |
| Share options exercised | 340,000 | 340 | | 1,719 | | 2,059 |
| Value of services rendered by employees (according to IFRS 2) | | | | 279 | | 279 |
| Net loss for the financial year | | | | | -6,284 | -6,284 |
| | | | | | | |
| **As of Dec. 31, 2009** | **10,143,348** | **10,143** | **3,574** | **28,798** | **-35,164** | **7,351** |
| Capital increase in exchange for cash contributions | 1,012,000 | 1,012 | -3,574 | 6,280 | | 3,718 |
| Share options exercised | 58,000 | 58 | | 357 | | 415 |
| Value of services rendered by employees (according to IFRS 2) | | | | 369 | | 369 |
| Net loss for the financial year | | | | | -5,651 | -5,651 |
| | | | | | | |
| **As of Dec. 31, 2010** | **11,213,348** | **11,213** | **0** | **35,804** | **-40,815** | **6,202** |

# IFRS STATEMENT OF CHANGES IN FIXED ASSETS

**for the period from January 1 to December 31, 2010**

| EUR'000 | I. Tangible assets | | | II. Intangible assets | | III. Investments | | Fixed Assets |
|---|---|---|---|---|---|---|---|---|
| | Technical equipment and machinery | Other equipment, operating and office equipment | Total | Licenses, industrial property rights and similar rights | Total | Other loans | Total | Total |
| **Acquisition/manufacturing costs:** | | | | | | | | |
| As of Jan. 1, 2010 | 761 | 359 | 1,120 | 3,951 | 3,951 | 370 | 370 | 5,441 |
| Additions | 55 | 30 | 85 | 11 | 11 | 0 | 0 | 96 |
| Disposals | 36 | 23 | 59 | 0 | 0 | 0 | 0 | 59 |
| As of Dec. 31, 2009 | 780 | 366 | 1,146 | 3,962 | 3,962 | 370 | 370 | 5,478 |
| Additions | 30 | 17 | 47 | 2 | 2 | 0 | 0 | 49 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposals | 77 | 15 | 92 | 0 | 0 | 0 | 0 | 92 |
| **As of Dec. 31, 2010** | **733** | **368** | **1,101** | **3,964** | **3,964** | **370** | **370** | **5,435** |
| | | | | | | | | |
| **Depreciation and amortization:** | | | | | | | | |
| As of Jan. 1, 2009 | 688 | 247 | 935 | 1,889 | 1,889 | 370 | 370 | 3,194 |
| Additions | 38 | 41 | 79 | 392 | 392 | 0 | 0 | 471 |
| Disposals | 32 | 23 | 55 | 0 | 0 | 0 | 0 | 55 |
| As of Dec. 31, 2009 | 694 | 265 | 959 | 2,281 | 2,281 | 370 | 370 | 3,610 |
| Additions | 22 | 38 | 60 | 312 | 312 | 0 | 0 | 372 |
| Disposals | 76 | 15 | 91 | 0 | 0 | 0 | 0 | 91 |
| **As of Dec. 31, 2010** | **640** | **288** | **928** | **2,593** | **2,593** | **370** | **370** | **3,891** |
| | | | | | | | | |
| **Carrying amount:** | | | | | | | | |
| As of Jan. 1, 2009 | 73 | 112 | 185 | 2,062 | 2,062 | 0 | 0 | 2,247 |
| As of Dec. 31, 2009 | 86 | 101 | 187 | 1,681 | 1,681 | 0 | 0 | 1,868 |
| **As of Dec. 31, 2010** | **93** | **80** | **173** | **1,371** | **1,371** | **0** | **0** | **1,544** |

# NOTES

**according to IFRS for the Financial Year 2010**

## A. General information on the company

Mologen AG (short: MOLOGEN) is a stock corporation headquartered in Berlin (Fabeckstraße 30, 14195 Berlin, Germany). It was founded on January 14, 1998 and is registered at the Berlin-Charlottenburg District Court under Trade Register entry HRB 65633. 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 and development and the marketing of products in the field of molecular medicine. This particularly encompasses bio-molecular vaccines, application-oriented clinical research in the field of bio-molecular tumor therapy, incl. somatic gene therapy. The main focus of research is on the MIDGE®- and dSLIM®-technologies patented by MOLOGEN, which facilitate the use of DNA-based therapies to treat diseases that are currently untreatable or for which treatment is insufficient.

## B. General information on the financial statements

### PRINCIPLES

The current individual financial statements of MOLOGEN (hereinafter: financial statements) have been prepared in accordance with the provisions of Section 325 Para. 2a HGB (German Commercial Code) regarding the publication of individual financial statements according to the International Accounting Standards specified in Section 315a I HGB.

The present individual financial statements of MOLOGEN were prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) as applied in the EU. The International Accounting Standards (IAS) in their present valid form as well as the interpretations of the International Financial Reporting Interpretations Committees (IFRIC) – formerly known as the Standard Interpretation Committee (SIC) –, as applied in the EU, have likewise been utilized in these financial statements.

The financial year for these financial statements is the period from January 1, 2010 to December 31, 2010. The corresponding prior year comparison period for these financial statements is the period from January 1, 2009 to December 31, 2009.

In the valuation of assets and liabilities, the 'going concern principle' is applied.

The functional currency and the presentation currency in the financial statements is the euro (€). For better readability, the numbers have been rounded in accordance with standard business practice and are presented in thousands of euro (€'000), unless otherwise indicated.

The application of IFRS 8 "Operating Segments" was disregarded since the technologies and product candidates of MOLOGEN are still in the research stage. It is not possible to allocate cash flows and respective expenses to individual product candidates and technologies, because different combinations of MOLOGEN's own as well as licensed technologies are used for different product candidates. Segment reporting would not lead to more information gained regarding expenditures and income compared to the other components of the financial statements.

### APPLICATION OF NEW AND AMENDED FINANCIAL REPORTING STANDARDS

The following statements of the IASB must be applied for the financial year commencing on or after January 1, 2010 and these statements were applied by MOLOGEN for the first time in the financial year 2010.

The application of the amended IAS 1 "Presentation of Financial Statements" – changes based on the annual improvement measures in the IFRS dated April 2009 – is mandatory for financial years that start on or after January 1, 2010.

The application of the amended IAS 7 "Statement of Cash Flows" – changes based on the annual improvement measures in the IFRS dated April 2009 – are mandatory for financial years that begin on or after January 1, 2010.

The application of the amended IAS 36 "Impairment of Assets" – changes based on the annual improvements to the IFRS of April 2009 – are mandatory for financial years that begin on or after January 1, 2010.

The application of the amended IAS 38 "Intangible Assets" – changes based on the annual improvement measures in the IFRS dated April 2009 – is mandatory for financial years that begin on or after January 1, 2010.

The first-time application of the statements did not significantly affect the presentation of the company's asset, financial and earnings situation.

If relevant to MOLOGEN, the following standards or interpretations newly issued or revised by the IASB would have been mandatory in the financial year 2010.

The application of the amended IFRS 1 "First-time Adoption of International Financial Reporting Standards" – revised and restructured – is mandatory for financial years that begin on or after July 1, 2009.

The application of the amended IFRS 1 "First time adoption of International Financial Reporting Standards" – changes regarding assets in the oil and gas sector and a determination as to whether an agreement contains a leasing relationship – is mandatory for financial years that begin on or after January 1, 2010.

The application of the amended IFRS 2 "Share-based Payment" – changes with regard to share-based compensation in the Group settled in cash – is mandatory for financial years that begin on or after January 1, 2010.

The application of the amended IFRS 3 "Business Combinations" – changes based on the comprehensive revision with regard to the application of the purchase method of accounting – is mandatory for financial years that begin on or after July 1, 2009.

The application of the amended IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" – changes based on the annual improvement measures in the IFRS dated May 2008 – is mandatory for financial years that begin on or after July 1, 2009.

The application of the amended IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" – changes based on the annual improvement measures in the IFRS dated April 2009 – is mandatory for financial years that begin on or after January 1, 2010.

The application of the amended IFRS 8 "Operating Segments" – changes based on the annual improvement measures in the IFRS dated April 2009 – is mandatory for financial years that begin on or after January 1, 2010.

The application of the amended IAS 17 "Leases" – changes based on the annual improvement measures in the IFRS dated April 2009 – is mandatory for financial years that begin on or after January 1, 2010.

The application of the amended IAS 27 "Consolidated and Separate Financial Statements" – follow-up changes from the changes in IFRS 3 – is mandatory for the financial years that begin on or after July 1, 2009.

The application of the amended IAS 28 "Investments in Associates" – follow-up changes from the changes in IFRS 3 – is mandatory for the financial years that begin on or after July 1, 2009.

The application of the amended IAS 31 "Interests in Joint Ventures" – follow-up changes from the changes in IFRS 3 – is mandatory for the financial years that begin on or after July 1, 2009.

The application of the amended IAS 39 "Financial Instruments: Recognition and Measurement" – changes with regard to embedded derivatives during a reclassification of financial assets – is mandatory for financial years that begin on or after June 30, 2009.

The application of the amended IAS 39 "Financial Instruments: Recognition and Measurement" – changes with regard to eligible underlying transactions – is mandatory for financial years that begin on or after July 1, 2009.

The application of the amended IAS 39 "Financial Instruments: Recognition and Measurement" – changes based on the annual improvement measures in the IFRS dated April 2009 – are mandatory for financial years that begin on or after January 1, 2010.

Moreover, it would have been mandatory for MOLOGEN to apply IFRIC 12 "Service Concession Arrangements", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 16 "Hedges of a Net Investment in a Foreign Operation", IFRIC 17 "Distribution of Non-cash Assets to Owners" and IFRIC 18 "Transfers of Assets from Customers" for the first time starting in the financial year 2010.

The following standards or interpretations issued or revised by IASB, which did not require mandatory application in the current financial statements, were not voluntarily applied ahead of time by MOLOGEN, as adoption by the EU is not yet complete:

The application of the amended IFRS 1 "First-time Adoption of International Financial Reporting Standards" – amendments regarding the partial exemption of first-time adopters from the use of comparison data in accordance with IFRS 7 – is mandatory for financial years that begin on or after July 1, 2010.

The application of the amended IFRS 1 "First-time Adoption of International Financial Reporting Standards" – changes based on the annual improvements in the IFRS dated May 2010 – is mandatory for financial years that begin on or after January 1, 2011.

The application of the amended IFRS 1 "First-time Adoption of International Financial Reporting Standards" – amendment regarding the fixed points in time regarding the exemption for derecognizing – is mandatory for the financial years that begin on or after July 1, 2011.

The application of the amended IFRS 1 "First-time Adoption of International Financial Reporting Standards" – amendment regarding periods of high inflation – is mandatory for the financial years that begin on or after July 1, 2011.

The application of the amended IFRS 3 "Business Combinations" – changes based on the annual improvement measures in the IFRS dated May 2010 – is mandatory for financial years that begin on or after July 1, 2010.

The application of the amended IFRS 7 "Financial Instruments: Disclosures" – changes based on the annual improvement measures in the IFRS dated May 2010 – is mandatory for financial years that begin on or after January 1, 2011.

The application of the amended IFRS 7 "Financial instruments: Disclosures" – changes to improve reporting of transfers of financial assets – is mandatory for financial years that begin on or after July 1, 2011.

The application of IFRS 9 "Financial Instruments: Classification and Measurement" is mandatory for financial years that begin on or after January 1, 2013.

The application of the amended IAS 1 "Presentation of Financial Statements" – changes based on the annual improvement measures in the IFRS dated May 2010 – are mandatory for financial years that begin on or after January 1, 2011.

The application of the amended IAS 12 "Income Taxes" – changes with regard to the recovery of underlying assets – is mandatory for financial years that begin on or after January 1, 2012.

The application of the amended IAS 24 "Related Party Disclosures" – changes with regard to a revised definition of related parties – is mandatory for financial years that begin on or after January 1, 2011.

The application of the amended IAS 27 "Consolidated and Separate Financial Statements" – changes based on the annual improvement measures in the IFRS dated May 2010 – is mandatory for financial years that begin on or after July 1, 2010.

The application of the amended IAS 32 "Financial Instruments: Presentation" – changes with regard to the classification of preemptive subscription rights – is mandatory for financial years that begin on or after February 1, 2010.

The application of the amended IAS 34 "Interim Financial Reporting" – changes based on the annual improvement measures in the IFRS dated May 2010 – is mandatory for financial years that begin on or after January 1, 2011.

The application of the amended IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" – is mandatory for financial years that begin on or after January 1, 2011.

The application of IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" is mandatory for financial years that begin on or after July 1, 2010.

## C. Accounting and valuation methods

The fundamental accounting and valuation methods and principles governing these financial statements are described in the following section.

The accounting and valuation methods have been applied consistently throughout the financial year.



The financial statements were generated according to the cost method. Amortized costs are recognized for the assets and liabilities recorded in the statement of financial position.

The amortized cost of a financial asset or financial liability is the amount at which a financial asset or liability was recognized, minus repayments, plus or minus the accumulated amortization of any difference between the original amount and the amount to be paid back on maturity, using the effective interest method as well as minus any impairment (either directly or using an impairment account) for reduced value or bad debts (IAS 39).

Preparation of the financial statements according to IFRS requires assumptions or estimates in relation to some items. These affect the recognition in the statement of financial position and/or statement of comprehensive income for the period. All estimates are continually revised, and are based on historical experiences and additional factors, incl. expectations with respect to future events that are deemed reasonable under the given circumstances.

Estimate uncertainties particularly arise in the determination of useful life and the recoverability of intangible and tangible assets and also regarding the realizability of future tax benefits when recognizing deferred taxes.

At every reporting date, the company reviews any carrying amounts of the assets and liabilities for any indication of an impairment. In this case, the recoverable amount of the respective asset or repayment amount of a liability is established to determine the scope of the impairment write-down that may need to take place.

The tangible and intangible assets are valued at original cost minus scheduled amortization based on use according to the cost model (IAS 16.30). Amortization is carried out on a straight-line, pro rata temporis basis, beginning with the month the asset is acquired or in the month when the asset is first used. The average useful life is between 3 and 13 years (software, technologies, and patents 3 – 10 years, technical equipment 4 – 10 years, company and office equipment 3 – 13 years). The amortization of tangible and intangible assets is recognized on the income statement in amortization.

The expected useful life and the amortization methods are reviewed at the end of every financial year. In the event that estimations require a revision, they are taken into account on a prospective basis. The carrying values of tangible and intangible assets are also examined at the end of the reporting period. In the event that this examination provides indications for incurred impairments, they are recorded as an expense. There were no amendments to the estimated useful life or amortization methods and no unscheduled impairment of tangible or intangible assets was recorded in the financial year or corresponding prior year period.

Financial assets are recognized at amortized cost taking into consideration the required impairment write-downs.

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

Government grants for costs are recognized in the period in which the costs they were issued to meet are incurred.

Government grants for investments are listed as deferred income within non-current liabilities. They are reversed on a straight-line basis over the expected useful life of the corresponding asset, with an impact on income.

Research costs are costs for original and planned research undertaken with the prospect of gaining new scientific or technical knowledge and understanding (IAS 38.8). They are recognized as an expense in the period in which they are incurred (IAS 38.54). Research costs are costs that are required to conduct research activities. This includes personnel expenditures, individual costs as well as directly attributable variable and fixed overhead costs. These costs are recognized as an expense at the time they are incurred.

Development costs cover expenses that serve to implement technical knowledge on a technical and commercial basis and they are capitalized if they can be identified as such and if future cash flows can be ascribed to them clearly with a high degree of probability (IAS 38.57). Since not all criteria required by the IFRS could be met simultaneously and due to the risks existing before commercialization, development costs were not capitalized.

Acquisition and manufacturing costs, as well as cumulative amortization, are applied to asset disposals. Results from asset disposals (disposal proceeds minus remaining carrying value) are reported on the income statement in other operating income or respectively in other operating expenses.

Cash and cash equivalents include cash in-hand and bank balances at their nominal value. Bank balances held in foreign currencies are converted at the rate on the day when the payment is received or rendered. The valuation at the end of the reporting period is also carried out with the rate on the reporting date. The differences arising from the valuation are recognized on the income statement.

Receivables are valued at amortized cost.

Assets of MOLOGEN recognized as inventories are goods recognized at amortized cost in line with the FIFO (First In – First Out) method. Raw materials and supplies, finished goods and work in progress are not held in inventory.

Other current and non-current assets are recognized at amortized costs.

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

This generally includes original financial instruments on the one hand, and derivative financial instruments on the other. MOLOGEN did not hold any derivative financial instruments – with or without balance sheet hedging – in the financial year 2010 or the prior year period.

The original financial instruments are reported and respectively explained in other non-current financial assets, trade receivables, other current receivables/assets, cash and cash equivalents, non-current and current financial liabilities. Other comprehensive explanations regarding financial instruments are contained in Section H "Notes on the type and management of financial risks".

In principle, financial instruments are initially recorded on the settlement date. When they are initially recorded, the financial instruments are recognized at their current fair value. For all financial assets and liabilities that have not been reported in income at their current fair value in the subsequent periods, transaction costs are allocated to purchases.

The financial assets held by MOLOGEN in the financial year 2010 and in the prior year period consist of financial assets as well as trade receivables and other receivables with fixed or determinable payments that are not traded on an active market.

The financial assets are examined on each reporting date for indications of impairment. Financial assets are deemed impaired if there is an objective indication that the future cash flows of the assets have adversely changed as a result of one or more events that occurred after they were first recognized.

Financial assets are written off when the legal rights to payment have expired or have been assigned.

No reclassifications between the valuation categories took place in the financial year 2010 or in the prior year period.

Financial liabilities are either recognized in the income statement as financial liabilities valued at fair value, or they are recorded as other financial liabilities.

The financial liabilities held by MOLOGEN in the financial year 2010 and prior year period consist of trade payables or other liabilities and are classified as other liabilities.

For the subsequent valuation, the other financial liabilities are valued according to the effective interest method for amortized costs, with potentially incurred interest expenses recorded according to the effective annual interest rate.

No reclassifications between the valuation categories took place in the financial year 2010 or in the prior year period.

Financial liabilities are no longer recognized after redemption, meaning after payment, revocation or expiry of the liability.



In principle, conversions of foreign currency liabilities are recognized on the income statement at the exchange rate valid on the reporting date.

Provisions (IAS 37) are liabilities of uncertain timing or amount. They are created for past events for which a current liability exists. This obligation is probable and it is possible to reliably estimate the amount of the obligation.

**Taxes**

Current tax assets and tax liabilities
The current tax assets and tax liabilities for the financial year 2010 and the prior year period are carried at the level that is expected to be reimbursed by the tax authorities or to be paid to the tax authorities. The calculation of the amount is based on the tax rates and tax laws valid at the reporting date.

Deferred taxes
Deferred taxes are recognized for temporary differences between the carrying values in the financial statements and tax accounts arising on the reporting date. They are set up for the amount of the expected tax burden or tax relief in subsequent financial years. Tax assets are only recognized if their realization appears to be sufficiently secured (IAS 12.27). The calculation is based on the tax rates expected at the time of realization that are valid at the end of the reporting period and/or are legally adopted. Tax assets and tax liabilities are only offset to the extent that they can be set off against each other in relation to a tax authority (IAS 12.74).

Actual and deferred taxes are recognized in profit or loss unless they are linked to items that are directly reported in equity. In this case, the taxes are reported directly in equity. No income taxes were recorded as expenditure or directly in equity during the financial year or in the prior year period. Deferred taxes were not reported as it is unclear whether they are actually realizable.

Ordinary shares are classified as equity. Costs that are directly attributed to issuing new shares or options are recognized in equity (net value after tax) as a deduction from issue proceeds.

As compensation for services provided, the employees of the company (incl. management) are given share-based compensation in the form of equity instruments (so-called transactions settled through equity instruments). Expenses that result from the granting of the equity instruments and the corresponding increase in capital are recorded in the time period in which the exercising or service requirements must be met (so-called "vesting period").

This time period ends on the first day on which the employee can exercise this option, meaning the day the employee is irrevocably entitled to exercise the option. The cumulative expenses recognized at the end of every reporting period up to the time when the employee can first exercise the option and resulting from the equity instruments reflect the portion of the vesting period that has already passed as well as the company's best possible estimate of the number of equity instruments that can currently be exercised when the vesting period is over. The amount recognized in the statement of comprehensive income for the period reflects the development of the cumulative expenses recorded at the beginning and end of the financial year.

Expenses and income in the financial year are recognized when they become realizable, regardless of the time when they are paid. Income from the sale of goods and services, technologies, licensing and sales rights and consulting services is recognized when the service has been provided or the goods have been delivered, after the risk has been transferred and the expected consideration can be reliably estimated. If services for collected or spent fees are performed in subsequent periods, the fees are deferred or accrued and a reversal is carried out over the period in which the services are performed.

## D. Notes to the statement of financial position as of December 31, 2010

### ASSETS

### NON-CURRENT ASSETS

**(1) Tangible assets**

Net tangible assets decreased in the financial year by € 14 thousand from € 187 thousand in the previous year to € 173 thousand. Ordinary depreciation was offset by investments of € 47 thousand (previous year: € 85 thousand).

The changes in tangible assets are described in the 'Statement of changes in fixed assets' presented on page 52.

**(2) Intangible assets**

In the reporting period, the value of the intangible assets on the statement of financial position decreased by € 310 thousand to € 1,371 thousand (previous year: € 1,681 thousand). Intangible assets comprise acquired technologies (carrying value: € 1,361 thousand, previous year: € 1,671 thousand), software (carrying value: € 10 thousand, previous year: € 10 thousand) and patents (carrying value: € 0, previous year: € 0).

Ordinary amortization was offset by investments of € 2 thousand (previous year: € 11 thousand).

The changes in intangible assets are described in the 'Statement of changes in fixed assets' presented on page 52.

### RESEARCH AND DEVELOPMENT

For the most part, the resources available to the company are utilized in research and development projects. Expenses in this area amount to € 4.3 million (previous year: € 4.8 million). As in the previous year, there were no development costs requiring capitalization in terms of IAS 38.

**(3) Financial assets**

Other loans posted under the financial assets of MOLOGEN are recognized at amortized cost. On the reporting date, they total € 0.00 (prior year: € 0.00).

For the cost of other loans of € 370 thousand, an impairment write-down in the same amount was made in the financial year 2005. The loan was related to a joint venture. The project was terminated.

**(4) Other non-current assets**

Other non-current assets consist of loans to employees amounting to € 4 thousand (previous year: € 4 thousand) and at the time of the reporting date have a remaining term of more than 12 months.

### CURRENT ASSETS

**(5) Cash and cash equivalents**

Cash and cash equivalents are comprised of cash in hand and bank balances with a remaining term of less than three months. Readily available bank balances are subject to variable interest rates. There were no current investments in the financial year 2010. The value of cash and cash equivalents as of the reporting date was € 4,722 thousand (previous year: € 6,174 thousand). It is based on the nominal value of the euro holdings and the recognition of a foreign currency account converted using the exchange rate valid on the reporting date on December 31, 2010.

**(6) Trade receivables**

Trade receivables are non-interest bearing and, on the reporting date, they have a remaining term that is exclusively under one year. They are generally due within 14 days. They are recognized at amortized cost. As of December 31, 2010, no trade receivables were recognized (previous year: € 5 thousand).

The analysis of non-impaired trade receivables is presented in the following table:

| | | | Overdue, but not impaired (portions of) receivables | | | |
|---|---|---|---|---|---|---|
| EUR'000 | Total | Neither overdue nor impaired | < 30 days | 30 – 90 days | 90 – 365 days | > 365 days |
| **Dec. 31, 2010** | 0 | 0 | 0 | 0 | 0 | 0 |
| **Dec. 31, 2009** | 5 | 0 | 5 | 0 | 0 | 0 |



As of December 31, 2010, impairment allowances for trade receivables in the amount of € 60 thousand were recognized (previous year: € 60 thousand).

In the financial year 2010, no impairment write-downs on trade receivables were conducted (previous year: € 48 thousand).

In the financial year 2010, no impaired trade receivables were derecognized (previous year: € 600 thousand).

No reversals of impaired write-downs for trade receivables were made (previous year: € 0 thousand).

The development of impairments in trade receivables is described in section H as part of the table entitled "Development of the impairment of financial instruments".

**(7) Inventories**

Inventories consist of goods (€ 24 thousand, previous year: € 20 thousand). No valuation or pledging limitations were placed on inventories.

**(8) Other current assets and deferred income tax entitlements**

| EUR'000 | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| Income tax entitlements | 10 | 20 |
| Reimbursements from VAT | 99 | 321 |
| Claims against tax authorities for investment subsidy | 4 | 8 |
| Other receivables | 677 | 162 |
| | **790** | **511** |

The income tax entitlements pertain to the corporate tax refunds (incl. the solidarity tax contribution) for the year 2010.

The amounts indicated under Reimbursements from VAT are comprised of receivables and liabilities to the same authorities and as such may be netted off according to IAS 12.71.

Fixed-term deposits in the amount of € 13 thousand (prior year: € 13 thousand) have been pledged and serve as collateral for a lease guarantee.

Other receivables comprise a cost reimbursement in the amount of € 201 thousand (previous year: € 0 thousand) based on arbitration proceedings initiated by a former business partner against MOLOGEN, which have now been closed. The charge was dismissed.

Moreover, the item 'other receivables' contains an advance payment in the amount of € 262 thousand (previous year: € 0 thousand) that was paid as part of the co-operation of Freie Universität Berlin to the "MOLOGEN Stiftungsinstitut für Molekularbiologie und Bioinformatik" (foundation institute for molecular biology and bioinformatics, hereinafter "Stiftungsinstitut").

The amount reported in other receivables includes impairment write-downs in the amount of € 555 thousand (previous year: € 559 thousand).

The impairment allowances recorded in the financial year 2005 in the amount of € 555 thousand (previous year: € 555 thousand) were related to a joint venture. The project was terminated.

In the financial year 2010, an impairment write-down for other receivables in the amount of € 4 thousand (previous year: € 1 thousand) was reversed. In the financial year 2003, impairment write-downs in the amount of € 12 thousand became necessary because a debtor had stopped payments due to financial difficulties. In the financial year 2010, payment was received in full for the still existing receivable, resulting in a reversal of the related impairment write-down that was carried out in the financial year 2010 in the amount of € 4 thousand (previous years: € 8 thousand).

No impairment write-downs for other assets were recorded in the financial year 2010 or in the prior year period.

The development of impairments of other current assets is presented in section H.

## EQUITY AND LIABILITIES

### NON-CURRENT LIABILITIES

**(9) Accrual items**

The recorded amount of € 80 thousand (previous year: € 86 thousand) pertains to government grants for assets (€ 14 thousand; previous year: € 13 thousand) and accrual items.

### CURRENT LIABILITIES

**(10) Current liabilities**

Trade payables are non-interest bearing and generally due within 30 days. Other current liabilities are non-interest bearing and are due within a twelve-month period.

Composition of current liabilities:

| EUR'000 | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| Trade payables | 416 | 513 |
| Deferred revenue | 91 | 306 |
| Deposits received for orders | 35 | 37 |
| Liabilities from income and church tax | 44 | 28 |
| Liabilities to banks | 6 | 5 |
| Other liabilities | 210 | 256 |
| | **802** | **1,145** |

The accrual item in the amount of € 91 thousand (12/31/2009: € 306 thousand) primarily contain funds from the 7th Framework Programme of the European Union totaling € 84 thousand (12/31/2009: € 299 thousand).

### SHAREHOLDERS' EQUITY

The composition of equity and the development of equity components is presented in the statement of changes in equity.

**(11) Paid-in capital**

MOLOGEN's paid-in capital is € 11,213,348, divided into 11,213,348 no-par bearer shares (individual share certificates), each with a notional share of € 1.00 in the share capital.

In the financial year 2010, MOLOGEN implemented the following measures relevant to the share capital:

On January 20, 2010, a capital increase performed in December 2009 was entered into the Commercial Register for the respective company in exchange for cash contributions to the exclusion of pre-emptive subscription rights. Based on an authorization by the Annual General Meeting as well as the approval of the Supervisory Board of MOLOGEN, 512,000 ordinary bearer shares (about 5% of the share capital) were placed. The paid-in capital at this point increased by € 512,000 from € 10,143,348 to € 10,655,348, divided into an equal amount of share certificates. On December 31, 2009 an amount of € 3,574 thousand had already been received. The received payments were recognized in the line item "deposits to effect the agreed capital increase." After the entry of the capital increase into the Commercial Register, in the financial year 2010, the item was respectively reclassified as 'paid-in capital' and recorded as 'capital reserve'.

On July 14, 2010, a capital increase performed in the financial year 2010 was entered into the Commercial Register for the respective company in exchange for cash contributions to the exclusion of pre-emptive subscription rights. Based on an authorization by the Annual General Meeting as well as the approval of the Supervisory Board of MOLOGEN, 500,000 ordinary bearer shares (about 5% of the share capital) were placed. The paid-in capital at this point increased by € 500,000 from € 10,658,348 to € 11,158,348, divided into an equal number of share certificates.

In the financial year 2010, a total of 58,000 pre-emptive shares were issued from the conditional capital 2007. The transfer of the shares took place on June 8, 2010 and on August 13, 2010. The paid-in capital at this point increased by € 3,000 from € 10,655,348 to € 10,658,348 and by € 55,000 from € 11,158,348 to € 11,213,348, divided into an equal number of share certificates.

### Conditional and authorized capital

The resolutions of the Annual General Meeting that took place on June 7, 2010 were entered into the respective Commercial Register on July 21, 2010. The following changes occurred in conditional and authorized capital:



**Conditional capital 2005-1**

With a resolution of the Annual General Meeting of June 7, 2010, the conditional capital 2005-1, which still existed in the amount of € 4,683, divided into 4,683 share units, was cancelled.

**Conditional capital 2006-1**

With a resolution of the Annual General Meeting of June 7, 2010, the conditional capital 2006-1, which still existed in the amount of € 180,268, divided into 180,268 share units, was cancelled

**Conditional capital 2010**

With the resolution of the Annual General Meeting of June 7, 2010, the share capital will be conditionally increased by up to € 610,151, divided into 610,151 share units (conditional capital 2010). The conditional capital increase is used to grant convertible bonds and/or pre-emptive subscription rights without the issuance of debt securities to the members of the Board of Directors and employees of the company based on the authorizing resolution of the Annual General Meeting of June 7, 2010. The conditional capital increase is conducted only insofar as the owners of the convertible bonds and/or options that were issued by the company based on a resolution of the Annual General Meeting on June 7, 2010 make use of their conversion and pre-emptive subscription rights. The new shares participate in the earnings from the beginning of the financial year in which the new shares were created by exercising the conversion or pre-emptive subscription rights.

**Authorized capital**

Based on the resolution of the Annual General Meeting on June 7, 2010, the Board of Directors has been authorized to increase the capital stock of the company until June 6, 2015 with the approval of the Supervisory Board by issuing no-par bearer shares as a one-time event or multiple times in exchange for investments in-kind or cash contributions, however, not to exceed € 5,327,674 (authorized capital) and thereby to stipulate, pursuant to Section 23 Para. (2) of the bylaws, a start of the profit sharing that deviates from the law. The new shares can also be taken over by a credit institution or consortium of credit institutions stipulated by the Board of Directors with the stipulation that the shareholders be given the opportunity to purchase the new shares (indirect pre-emptive subscription right).

The Board of Directors is also authorized to exclude the pre-emptive subscription right of the shareholders, respectively with the approval of the Supervisory Board

a) to the extent that this is necessary to compensate for fractional amounts,
b) if the capital increase does not exceed ten one hundredths of the capital stock and the issued value does not significantly fall below of the price of the already publicly traded shares of the company at the time of the final determination through the Board of Directors, or
c) for capital increases against assets in-kind for the acquisition of companies, company shares or investments in companies as well as assets that are beneficial or useful for the operation of the company, such as e.g. patents, licenses, trademark protected user and utilization rights as well as other rights in intangible assets.

The Board of Directors has been authorized to determine the additional details of the issuance of new shares with the approval of the Supervisory Board.

The previous authorized capital in the amount of € 3,206,424 that remained after the partial use during the cash capital increase in May 2010 following the registration of the capital increase on July 14, 2010 was cancelled.

At the end of the reporting period on December 31, 2010, the company had the following authorized and conditional capital:

| EUR | Dec. 31, 2009 | Dec. 31, 2010 | Change |
|---|---|---|---|
| Authorized capital | 4,218,424 | 5,327,674 | 1,109,250 |
| Conditional capital 2005-1 | 4,683 | cancelled | -4,683 |
| Conditional capital 2006-1 | 180,268 | cancelled | -180,268 |
| Conditional capital 2007 | 237,234 | 179,234 | -58,000 |
| Conditional capital 2008 | 3,770,739 | 3,770,739 | 0 |
| Conditional capital 2009 | 218,149 | 218,149 | 0 |
| Conditional capital 2010 | — | 610,151 | 610,151 |

The conditional capital 2007 is used to grant convertible bonds and/or pre-emptive subscription rights without issuance of debt securities to the members of the Board of Directors and the employees of the company. The conditional capital increase is implemented only insofar as the holders of the convertible bonds and/or options issued by the company exercise their conversion or pre-emptive subscription rights. The new shares participate in the earnings from the beginning of the financial year in which the new shares were created by exercising the conversion or pre-emptive subscription rights.

The conditional capital 2008 is used to issue convertible or warrant bonds with a total par value of up to € 10,000,000 with a duration of up to 10 years, and to grant the owners or holders of debt securities conversion rights on new shares of the company with a pro rata amount of the share capital of up to € 3,770,739. The conditional capital increase is implemented insofar as the owners or holders of conversion or option rights exercise their rights, or the owners or holders required to convert fulfill their obligation to convert. The new shares participate in the earnings from the beginning of the financial year in which the new shares were created by exercising the conversion rights or by fulfilling the conversion obligations.

The conditional capital 2009 is used to grant convertible bonds and/or pre-emptive subscription rights without issuing debt securities to the members of the Board of Directors and the employees of the company based on the resolution for authorization passed by the Annual General Meeting on May 19, 2009. The conditional capital increase is implemented only insofar as the holders of the convertible bonds and/or options issued by the company exercise their conversion or pre-emptive subscription rights. The new shares participate in the earnings from the beginning of the financial year in which the new shares were created by exercising the conversion or pre-emptive subscription rights. The resolution of the Annual General Meeting was entered into the respective Commercial Register on June 23, 2009.

With the resolution of the Annual General Meeting on June 7, 2010, the share capital will be conditionally increased by up to € 610,151, divided into 610,151 share units (conditional capital 2010). The conditional capital increase is used to grant convertible bonds and/or pre-emptive subscription rights without the issuance of debt securities to the members of the Board of Directors and employees of the company based on the authorizing resolution of the Annual General Meeting on June 7, 2010. The conditional capital increase is conducted only insofar as the owners of the convertible bonds and/or options that were issued by the company based on a resolution of the Annual General Meeting on June 7, 2010 make use of their conversion and pre-emptive subscription rights. The new shares participate in the earnings from the beginning of the financial year in which the new shares were created by exercising the conversion or pre-emptive subscription rights.

### (12) Capital reserve

The capital reserve contains equity items that were received externally via the paid-in capital and the withdrawal of € 6,668 thousand made in the financial year 2002, which was offset against accumulated losses.

As a result of the capital increases performed in the financial year 2010 in exchange for cash contributions with an exclusion of pre-emptive subscription rights and the new shares issued, the capital reserve increased by € 7,198 thousand. As required by IAS 32.37, costs of € 561 thousand (previous year: € 301 thousand) incurred in the equity procurement were taken into account in the capital reserve. Thus the capital reserve increased by a total of € 6,637 thousand.

The application of IFRS 2, Share-based Compensation, resulted in allocations of € 369 thousand (previous year: € 279 thousand) in the capital reserve.

With respect to the adjustments made in the capital reserves in the financial year in association with the stock options granted to employees, we refer to No. 17 of the Notes.

| EUR'000 | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| Capital reserve | 35,136 | 27,938 |
| Employee compensation in equity instruments | 3,035 | 2,666 |
| Costs of equity procurement | -2,367 | -1,806 |
| | **35,804** | **28,798** |

### (13) Accumulated losses

Accumulated losses contain a loss carried forward in the amount of € 35,164 thousand (previous year: € 28,880 thousand).



## E. Notes to the statement of comprehensive income for the period from January 1 to December 31, 2010

### (14) Revenues

For the most part, sales revenues in the financial year 2010 stem from domestic business transactions.

| EUR'000 | 2010 | 2009 |
|---|---|---|
| Goods and services | 82 | 41 |
| Technologies | 7 | 7 |
| Licensing and distribution rights | 0 | 5 |
| | **89** | **53** |

Revenues are due to one-time effects and as such are subject to fluctuations.

### (15) Other operating income

| EUR'000 | 2010 | 2009 |
|---|---|---|
| Funding | 263 | 300 |
| Income from other accounting periods | 108 | 0 |
| Remaining other operating income | 8 | 8 |
| | **379** | **308** |

During financial year 2009, MOLOGEN received funding in the amount of € 599 thousand from the 7th Framework Programme of the European Union. This amount is a prepayment for the first phase of the project term. Income from the receipt of funding in the financial year 2010 totals € 215 thousand (01/01/ – 12/31/2009: € 300 thousand) and is recognized in 'other operating income'. Currently, no repayment risks can be determined.

In the financial year 2010, MOLOGEN started on a project for the pre-clinical development of a MIDGE®-based vaccine against hepatitis B. This project is being funded by the Federal Ministry of Education & Research as part of the EuroTrans-Bio-initiative of the EU. In the financial year 2010, subsidies in the amount of € 19 thousand were spent, while subsidies in the amount of € 29 thousand were recognized in the balance sheet. These subsidies are provided under certain conditions. According to current knowledge, these conditions can be met. Should it not be possible to fulfill these conditions, MOLOGEN would face a repayment risk in the amount of € 19 thousand (12/31/2009: € 0 thousand).

Income from other periods comprise mainly income from the cost reimbursement in relation to the arbitration proceedings initiated against MOLOGEN that have now been closed. The charge was dismissed.

### (16) Cost of materials

| EUR'000 | 2010 | 2009 |
|---|---|---|
| Expenses for raw materials, supplies, and goods | 305 | 1,231 |
| Expenses for services used | 827 | 942 |
| | **1,132** | **2,173** |

In contrast to the previous financial year, costs for materials decreased in the financial year 2010. In the financial year 2009, a significant amount of raw materials and supplies were acquired for preparatory measures and execution of the clinical studies with MGN1703.

Expenses for raw materials, supplies and goods include changes in inventories of € -4 thousand (previous year: € -15 thousand).

### (17) Personnel expenses

| EUR'000 | 2010 | 2009 |
|---|---|---|
| Wages and salaries | 1,870 | 1,707 |
| Social insurance contributions | 278 | 260 |
| Stock options granted (according to IFRS 2) | 369 | 279 |
| | **2,517** | **2,246** |

The increase in personnel expenses as compared to financial year 2009 can be primarily attributed to one-time effects caused by bonus payments, salary adjustments and the issuance of employee options in the course of MOLOGEN's stock option program 2010.

On average, MOLOGEN had 41 (prior year: 40) employees (excluding members of the Board of Directors and temporary staff) during the year.

Employee structure (incl. temporary staff):

| | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| Board of Directors | 2 | 2 |
| Research and Development Staff (R&D) | 36 | 36 |
| Administration | 6 | 6 |
| | **44** | **44** |

### (18) Amortization

The amortization posted for intangible assets and tangible assets consists of scheduled amortization. There were no unscheduled impairments.

| EUR'000 | 2010 | 2009 |
|---|---|---|
| Intangible assets | 312 | 392 |
| Tangible assets | 60 | 79 |
| | **372** | **471** |

### (19) Other operating expenses

| EUR'000 | 2010 | 2009 |
|---|---|---|
| Legal and consulting costs | 561 | 644 |
| Administration costs | 372 | 250 |
| Patent costs | 240 | 197 |
| Travel expenses | 178 | 184 |
| Marketing/Investor Relations | 197 | 151 |
| Rent | 120 | 104 |
| Maintenance | 85 | 103 |
| Fringe costs (personnel) | 33 | 54 |
| Impairments on receivables | 0 | 48 |
| Remaining other operating expenses | 363 | 88 |
| | **2,149** | **1,823** |

Other operating expenses are comprised of research costs, which were incurred as part of the co-operation with the Freie Universität Berlin. The payments made to the "Stiftungsinstitut" in the financial year 2010 amounted to € 263 thousand (previous year: € 0 thousand).

In the financial year 2010, the auditor charged € 40 thousand for auditing services, € 30 thousand for other certification services and € 1 thousand for other services.

### (20) Financial result

| EUR'000 | 2010 | 2009 |
|---|---|---|
| **Financing expenses** | | |
| Other interest expense | **1** | **1** |
| | | |
| **Finance income** | | |
| Interest on financial credit | 40 | 68 |
| Interest on receivables | 0 | 1 |
| Other interest (from other accounting periods) | 12 | 0 |
| | **52** | **69** |

### (21) Tax result

#### Current tax assets and tax liabilities

No income taxes were reported in the financial year 2010 and the prior year period.

#### Deferred taxes

According to German law, corporate tax loss carried forward of MOLOGEN in the amount of € 47.2 million (previous year: € 41.5 million) and the trade tax-related loss carried forward in the amount of € 45.5 million (previous year: € 39.7 million) can be offset against future taxable income.

However, there is uncertainty regarding future possibilities for offsetting because tax legislation could change and future profitability is difficult to predict. For these reasons there has been no recognition of deferred tax receivables.



Structure of deferred taxes and their respectively formed value adjustments:

Dec. 31, 2009

| Statement of financial position item/ Loss carried forward in EUR'000 | Discrepancy | Deferred tax prior to value adjustment | Value adjustment | Deferred tax after value adjustment |
|---|---|---|---|---|
| Tangible assets | 0 | 0 | 0 | 0 |
| **Total deferred taxes** | | **0** | **0** | **0** |
| Tangible assets | 3 | 1 | -1 | 0 |
| Tax loss carried forward | | 12,082 | -12,082 | 0 |
| **Total deferred tax assets** | | **12,083** | **-12,083** | **0** |
| **Subtotal deferred taxes on Dec. 31, 2010** | | **12,083** | **-12,083** | **0** |

Dec. 31, 2010

| Statement of financial position item/ Loss carried forward in EUR'000 | Discrepancy | Deferred tax prior to value adjustment | Value adjustment | Deferred tax after value adjustment |
|---|---|---|---|---|
| Tangible assets | 0 | 0 | 0 | 0 |
| **Total deferred taxes** | **0** | **0** | **0** | **0** |
| Tangible assets | 6 | 2 | -2 | 0 |
| Tax loss carried forward | | 14,004 | -14,004 | 0 |
| **Total deferred tax assets** | | **14,006** | **-14,006** | **0** |
| **Subtotal deferred taxes on Dec. 31, 2010** | | **14,006** | **-14,006** | **0** |

The accounting is based on the combined income tax rate of 30.2%. It includes corporate tax, the solidarity tax contribution and trade tax.

Reconciliation of expected to actual tax result:

| EUR'000 | 2010 | 2009 |
|---|---|---|
| Profit for the year before tax | -5,651 | -6,284 |
| Expected tax expenditure (+)/income (-) | -1,707 | -1,897 |
| Tax effects of expenses that are not tax-deductible | -37 | 9 |
| Tax effects of income to be disregarded in terms of tax | -1 | -1 |
| Change of value adjustment to deferred taxes | 1,923 | 1,889 |
| Tax effects through the adjustment of tax loss carried forward resulting from the audit | -180 | 0 |
| Unexplained discrepancy | 2 | 0 |
| **Actual tax expenditure (+)/ income (-)** | **0** | **0** |

The reconciliation is based on the combined income tax rate of 30.2%. It includes corporate tax, the solidarity tax contribution and trade tax.

### (22) EARNINGS PER SHARE (EPS)

Undiluted earnings per share are calculated by dividing the earnings attributable to the owners of the ordinary shares of the company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share are calculated by dividing the earnings attributable to the owners of the ordinary shares of the company by the weighted average number of ordinary shares in circulation during the financial year plus the weighted average number of ordinary shares arising from the conversion of all potential ordinary shares with the dilution effect into ordinary shares.

| | 2010 | 2009 |
|---|---|---|
| Earnings attributable to the ordinary shareholders of the company in €'000 | -5,651 | -6,284 |
| Weighted average number of ordinary shares for calculating the undiluted earnings per share in thousands | 10,883 | 9,849 |
| Dilution effect from the issue of stock options in thousands | 0 | 0 |
| Weighted average number of ordinary shares incl. the dilution effect in thousands | 10,883 | 9,849 |
| Undiluted EPS in € | -0.52 | -0.64 |
| Diluted EPS in € | —[1)] | —[1)] |

[1)] Stock options issued in the previous years and in the financial year 2010 did not result in any dilution effects as per IAS 33.41 et seq.

### (23) NOTES ON THE CASH FLOW STATEMENT

The cash flow statement shows how the cash and cash equivalents of MOLOGEN have changed through cash inflows and outflows during the financial year. According to IAS 7, a distinction is made between cash flow from operating activities and from investing and financing activities.

The cash flow from operations contains interest income affecting income of € 52 thousand (previous year: € 75 thousand). Interest was paid in the amount of € 1 thousand (previous year: € 1 thousand).

## F. Notes on the employee participation programs

The company has set up several share-based employee participation programs. The employees have received stock options that entitle them to subscribe to MOLOGEN shares at a predetermined price under certain conditions. MOLOGEN will create the necessary shares via capital increases, and has various sets of conditional capital for this purpose.

### CONTRACTUAL OBLIGATIONS OF THE STOCK OPTION PROGRAMS (AOP)

The contractual conditions on the basis of which persons entitled can exercise the granted stock options are summarized below.

**The following conditions apply to all option programs:**

Stock option:
Each stock option grants the person entitled the right to subscribe to one bearer share with the notional par value of € 1.00.

Persons entitled:
Members of the Board of Directors and company employees (supplemented by stock option plan 2007: as well as the members of the management and employees of the German and international companies affiliated with the company)

Vesting period:
Two years from the resolution about the allocation to the entitled persons, for the stock option program 2010: four years from the time of their issuance or grant to the entitled person

Exercise periods:
After the vesting period expires, the employee stock options can only be exercised within four weeks after the publication of the respective, current quarterly report or semi-annual report or the respective, current interim report of the company, otherwise within four weeks after the publication of the annual financial statements or within four weeks after the company's Annual General Meeting.

Strike price:
This equates to the average market price of the share (arithmetic mean of the closing prices on the regulated market at the Frankfurt Stock Exchange or, after restructuring the stock exchange segments, in a trading statement of this stock exchange in which the company's shares are traded) and 60 trading days prior to the resolution of the Board of Directors (if stock options are issued to the Board of Directors: by the Supervisory Board) on the respective allocation.

Exercise price:
Equates to the strike price

**Details of the respective stock option programs:**

**Stock option program 2007**

Duration:
Three years from the allocation date

Performance target:
The options can only be exercised if the average market price of the share (arithmetical mean of the closing prices on the regulated market at the Frankfurt Stock Exchange or, after the restructuring of the stock exchange segments in the trading segment of this stock exchange in which the company's share is traded) has increased by at least 10% compared with the strike price at issue for each full year after issue of the option on the last 10 trading days prior to the exercise date.

**Stock option program 2009**

Duration:
Five years from the allocation date

Performance target:
The stock option can only be exercised if the average share price (arithmetic mean of the closing prices on the regulated market at the Frankfurt Stock Exchange, or after the restructuring of the stock exchange segments, in the trading segment of this stock exchange in which the company's shares are traded) compared with the strike price has increased in the following manner in the last 10 trading days prior to the day the option is exercised: The option can only be exercised in the third year after the issue/allocation if the average share price (arithmetic mean of the closing prices on the regulated market at the Frankfurt Stock Exchange, or in the event there is a restructuring of the stock exchange segments, in the trading segment of this stock exchange in which the company's share is traded) has increased compared with the strike price by at least 10% in the last 10 trading days prior to the day the option is exercised (performance target). For the fourth year, the performance target is 13% over the strike price and for the fifth year, it is 16% above the strike price.

**Stock option program 2010**

Duration:
Seven years from allocation date

Exercise price:
Equates to the strike price

Performance target:
The stock option can only be exercised if the average share price (arithmetic mean of the closing prices on the regulated market at the Frankfurt Stock Exchange, or after the restructuring of the stock exchange segments in the trading segment of this stock exchange in which the company's shares are traded) compared with the strike price has increased in the following manner in the last 10 trading days prior to the day the option is exercised: The option can only be exercised in the fifth year after the issue/allocation if the average share price (arithmetic mean of the closing prices on the regulated market at the Frankfurt Stock Exchange, or in the event there is a restructuring of the stock exchange segments, in the trading segment of this stock exchange in which the company's share is traded) has increased compared with the strike price by at least 16% in the last 10 trading days prior to the day the option is exercised (performance target). For the sixth year, the performance target is 19% above the strike price and for the seventh year, it is 22% above the strike price.

### ACCOUNTING

The fair value of the granted stock options is determined at the time of the grant. In this respect, the conditions at which the options were granted are taken into account. The fair values of the stock option programs were calculated using a Monte Carlo simulation model.

The following table contains the parameters applied to the valuation:

| | Stock option program | | | |
|---|---|---|---|---|
| **Parameters** | **2007** | **2009a** | **2009b** | **2010** |
| Dividend yield (%) | 0.00 | 0.00 | 0.00 | 0.00 |
| Expected volatility (%) | 53.41 | 44.49 | 43.37 | 51.07 |
| Risk-free interest rate (%) | 3.80 | 1.81 | 1.79 | 1.70 |
| Anticipated duration of the option (years) | 2.25 | 3.50 | 3.50 | 5.50 |
| Share price on date of issue (€) | 6.90 | 6.52 | 7.24 | 8.55 |

The respective anticipated duration of the stock options was determined based on prior experience. These assumptions do not necessarily correspond to the actual exercise behavior of the persons entitled.

The considered volatility is based on the assumption that historical volatilities can suggest future trends. The historical volatility was considered over a period corresponding to the anticipated duration of the share options. The actual volatility may differ from the assumptions made.

The estimates of the yield curve on the bond market published by the German Federal Bank are used as the risk-free interest rates. In this respect, the interest rate that has an identical remaining term or the nearest due date is selected.

The company does not currently pay a dividend to its shareholders. There was no change to this distribution policy during the term of the stock options. This will not necessarily equate to the actual dividends paid out in the future.

### DEVELOPMENT DURING THE FINANCIAL YEAR

The Board of Directors issues stock options to employees of MOLOGEN. The Supervisory Board issues stock options to members of the Board of Directors. In the current financial year, 529,494 stock options (previous year: 217,973) were issued to persons entitled. As of December 31, 2010, a total of 80,833 stock options (previous year: 3,176) were not yet allocated.

The following table shows the number and the weighted average exercise prices (WAEP) as well as the development of the stock options during the reporting period:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | WAEP per stock option € | Stock options unit | WAEP per stock option € | Stock options unit |
| As of Jan. 1 | 7.35 | 475,603 | 6.87 | 754,380 |
| Granted [1] | 8.93 | 529,494 | 7.22 | 217,973 |
| Forfeited | 7.23 | 9,575 | 7.48 | 600 |
| Exercised [2] | 7.48 | 58,000 | 6.11 | 340,000 |
| Expired | 7.46 | 199,630 | 7.52 | 156,150 |
| As of Dec. 31 | 8.45 | 737,892 | 7.35 | 475,603 |
| Exercisable as per Dec. 31 [3] | — | 0 | 7.46 | 257,630 |

[1] The weighted average fair value of the stock options granted was € 3.78 per share.
[2] The weighted average share price at the time the stock options were exercised was € 9.19 (previous year: € 7.44).
[3] The only factor taken into account here is whether the vesting period of the stock options has already expired. All other contractual obligations, such as the attainment of the performance target were disregarded.

The weighted average remaining contract duration for the stock options outstanding as of December 31, 2010 is 5.85 years (12/31/2009: 2.56 years). The exercise price for the options outstanding at the end of the reporting period lies within the range of € 6.95 and € 8.93 (12/31/2010: € 6.95 and € 7.76).

## G. Other financial liabilities and conditional liabilities

Other financial liabilities comprise leases for the financial year 2011 in the amount of € 55 thousand and for the financial year 2012 in the amount totaling € 0 thousand. In addition, MOLOGEN has other financial obligations that require reporting in the amount of € 645 thousand for 2011 and in the amount of € 127 thousand for 2012.

As of December 31, 2010, there are no contingent liabilities pursuant to IAS 37. The contingent liabilities reported in the annual report for 2009 were based on payment risk (amount in dispute plus interest). In 2009, a licensee of MOLOGEN had initiated arbitration proceedings. These arbitration proceedings were settled in October 2010 with the issuance of an arbitration award. The charge was dismissed. The arbitration award has the same effect as a legally binding ruling by a court of law.

## H. Notes on the type and management of financial risks

### 1. FINANCIAL RISK MANAGEMENT

MOLOGEN has a risk management system for the detection, assessment and control of risk that could arise from the existing financial instruments. The risks stem from effected and planned cash income and expenses and can take the form of default, liquidity and exchange rate risks. There are no other interest risks or price risks as the main financial instruments used by the company cover trade receivables and payables, cash and cash equivalents, other loans and granted loans.

The main purpose of the financial instruments is to finance the company's activities. Further details are provided in the Management Report ("Risk report" section). The secondary purpose is to utilize the investment opportunities to achieve interest earnings using only conservative and current products.

The main indicators of the primary target are the level of indebtedness and the relationship between issued capital and overall equity.



### 2. RISKS ARISING FROM FINANCIAL INSTRUMENTS

MOLOGEN may be exposed to the following risks with regard to its assets, liabilities and scheduled transactions:

#### Default risks

MOLOGEN is exposed to default risk as a result of its operating activities. Receivables are monitored constantly. Default risks are taken into consideration by way of specific valuation allowances (see sections D (3), D (6), D (8)). Collective specific valuation allowances were not formed.

The company did not take out any loans or grant any financial guarantees.

#### Liquidity risks

The company constantly monitors the risk of a potential liquidity bottleneck. To do so, the company monitors the durations of the financial assets (e.g. receivables) and liabilities as well as expected cash flow from operating activities. If necessary, certain cost-intensive activities and projects may be postponed temporarily in order to reduce the outflow of funds.

MOLOGEN is either not exposed to the following market risks or the exposure is negligible:

#### Interest risks

There is no risk from fluctuations in the market interest rates as the company does not have any non-current or current financial liabilities that are subject to variable interest rates.

Not required cash funds are invested as time deposits for a maximum period of three months at the respectively current market interest rate. Changes in the interest level are reflected in the amount of the interest income.

#### Exchange rate risks

MOLOGEN uses only a very limited amount of financial instruments held in foreign currencies. The exchange rate risk can therefore be classified as very low.

#### Other price risks

There are no other price risks.

### 3. CATEGORIES OF FINANCIAL INSTRUMENTS

| EUR'000 | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables valued at amortized costs | | |
| Investments | 0 | 0 |
| Trade receivables | 0 | 5 |
| Cash and cash equivalents | 4,722 | 6,174 |
| Other financial assets | 685 | 174 |
| | | |
| **Financial liabilities** | | |
| Valued at costs less impairment | | |
| Liabilities to banks | 6 | 5 |
| Trade payables | 416 | 513 |
| Other financial liabilities | 290 | 321 |

The carrying values of the financial assets and the financial liabilities correspond to their fair value.

The evaluation of the financial assets and financial liabilities of MOLOGEN are explained in section C, "Accounting and valuation methods".

No new classifications or reclassifications were made in the financial year or in the corresponding prior year.

In the financial year, no expenses from currency conversions were recorded (previous year: € 28 thousand).

Development of the impairment of financial instruments:

| | Impairments of | | | |
|---|---|---|---|---|
| EUR'000 | Investments | Trade receivables | Other financial assets | Total |
| **As of Jan. 1, 2009** | **370** | **612** | **560** | **1.542** |
| Increase/decrease in impairment recognized in income | **0** | **48** | **-1** | **47** |
| Derecognition of the impairment recorded | 0 | -600 | 0 | -600 |
| **As of Dec. 31, 2009** | **370** | **60** | **559** | **989** |
| Decrease in impairment recognized in income | 0 | 0 | -4 | -4 |
| Derecognition of the impairment recorded | 0 | 0 | 0 | 0 |
| **As of Dec. 31, 2010** | **370** | **60** | **555** | **985** |

## I. Information on affiliated persons and the company

### INFORMATION ON THE BOARD OF DIRECTORS

**1. The following persons were on the Board of Directors of MOLOGEN in the financial year 2010:**

**Dr. Matthias Schroff,**
Chief Executive Officer, Berlin,
(Chairman of the Board from 01/01/2008 to 01/31/2014)

**Mr. Jörg Petraß,**
Finanzvorstand, Chief Financial Officer, Berlin
(from 02/01/2007 to 01/31/2013).

**2. Information on the compensation structure of the Board of Directors:**

**a) Non-performance-based and performance-based compensation components**

Part of the compensation paid to the members of the Board of Directors is not performance-based; this part is paid in monthly partial amounts. They also receive a variable performance-based compensation component which is only paid when performance objectives have been met.

In the financial year 2009, stock options were exercised. This exercise resulted in non-cash benefits that are recognized as other compensation.

The members of the Board of Directors receive the following non-performance-based and/or performance-based compensation:

| EUR'000 | | Dr. M. Schroff | J. Petraß | Gesamt |
|---|---|---|---|---|
| Non-performance-based compensation | **2010** | **175** | **173** | **348** |
| | 2009 | 120 | 100 | 220 |
| Performance-based compensation | **2010** | **39** | **39** | **78** |
| | 2009 | 80 | 65 | 145 |
| Other compensation | **2010** | **0** | **0** | **0** |
| | 2009 | 122[1)] | 0 | 122 |
| Total of directly paid compensation | **2010** | **214** | **212** | **426** |
| | 2009 | 322 | 165 | 487 |

[1)] Non-cash benefit from exercising the stock options.



**b) Compensation components with long-term incentive effect**

The members of the Board of Directors were granted stock options as compensation components with long-term incentive effect in the financial year.

| | | Dr. M. Schroff | J. Petraß | Total |
|---|---|---|---|---|
| Issued pre-emptive subscription rights (in units) | **2010** | **91,522** | **91,522** | **183,044** |
| | 2009 | 43,630 | 43,630 | 87,260 |
| Current fair value of issued pre-emptive subscription rights (in €'000 at issuance) | **2010** | **346** | **346** | **692** |
| | 2009 | 86 | 86 | 172 |
| Total personnel expenditures from stock options in the respective financial year in €'000 | **2010** | **72** | **72** | **144** |
| | 2009 | 61 | 61 | 122 |

**c) Benefits in the event of a premature termination of the employment relationship**

In the event of a premature termination of the employment relationship due to a takeover of at least 30% of the voting rights by a third party ("change of control"), the Board of Directors contracts for Dr. Matthias Schroff and Mr. Jörg Petraß stipulate a severance payment in the amount of twice the fixed annual compensation: € 180 thousand (per board member) plus all variable compensation components that have been obtained up to this point in time (max. € 360 thousand p.a. per board member) plus the sum of the variable compensation components that would have been maximally attained annually during the remainder of the contract discounted by 5%. It is, however, in this case of no importance whether the contract has been terminated by the company or whether the termination was mutual. However, the contract termination must be concluded within six months after the notification about a change of control; if not, the following regulations apply.

In the case of a premature termination of the employment contract by the Supervisory Board or a premature mutually agreed termination of the contract (with the exception of a change of control event, in which case the aforementioned regulation applies), every member of the Board of Directors receives a severance payment of 1.5 times their fixed annual compensation plus all variable compensation components that have been obtained up to that point. A prerequisite is that the contract, in the event it was prematurely terminated by the Supervisory Board, was not terminated due to a premeditated breach of duty or gross negligence or due to a dismissal as a member of the Board of Directors for good reason.

**d) Miscellaneous**

Payments from third parties regarding the activity as a member of the Board of Directors were not promised or granted to any member of the Board of Directors in the financial year.

### INFORMATION ON THE SUPERVISORY BOARD

1. The following persons were on the Supervisory Board of MOLOGEN in the financial year 2010:

**Dr. Mathias P. Schlichting,**
Attorney at law, Hamburg (Chairman)
(Membership in other supervisory bodies: none)

**Mr. Gregor Kunz,**
Auditor, Tax Consultant, Berlin
(Membership in other supervisory bodies: member of the Supervisory Boards of the following companies: Odeon Film AG, Berlin; Konsumgenossenschaft Berlin und Umgegend eG, Berlin; CAT Model Management AG, Berlin; member of the Advisory Boards in the following companies: Berliner Volksbank eG, Berlin; GESTRIM Deutsche Fondsmanagement GmbH, Berlin; FBLK Immobilien GmbH & Co. KG, Berlin, since August 2010)

**Mr. Ferdinand Graf von Thun und Hohenstein,**
Entrepreneur, Munich
Member of the Supervisory Board until January 14, 2011
(Membership in other supervisory bodies: none)

2. New member of the Supervisory Board after December 31, 2010:

**Mrs. Susanne Klimek,**
Certified Bank Operations Specialist (Bankkauffrau), Munich
Member of the Supervisory Board since January 24, 2011
(Membership in other supervisory bodies: none)

3. Information regarding Supervisory Board compensation:

The compensation of the Supervisory Board amounted to € 80 thousand in 2010 (previous year: € 80 thousand). There was also compensation for attending meetings totaling € 16 thousand (previous year: € 14 thousand).

### INFORMATION ON THE SCIENTIFIC ADVISORY BOARD

1. The following persons were on the Scientific Advisory Board of MOLOGEN in the financial year 2010:

**Prof. Dr. Burghardt Wittig,** Germany
Co-founder and former Chairman of the Board of Directors of Mologen AG and Professor of Molecular Biology and Bioinformatics at the Freie Universität Berlin

**Prof. Dr. Hans Lutz,** FVH, FAMH, Switzerland
Professor for Clinical Laboratory Diagnostics and Head of the Veterinary Medicinal Laboratory and Vice Dean of Planning and Resources, Vetsuisse Faculty at the University of Zurich

**Dr. Ulrich Granzer,** Germany
Founder and CEO of "Granzer Regulatory Consulting & Services" based in Munich

**Dr. med. habil. Martin Weihrauch,** Germany
Board-certified internist, hematologist and oncologist at the center for Integrated Oncology and Medical Director of the outpatient department (MVZ) at the University Clinic of Cologne

**Prof. Farrokh Modabber,** Switzerland
(member until December 31, 2010)
Senior Manager at the Drugs for Neglected Diseases initiative (DNDi), Geneva

2. Information on the compensation of the Scientific Advisory Board:

In the financial year 2010, the members of the Scientific Advisory Board received compensation totaling € 120 thousand (previous year: € 120 thousand). There was also compensation for attending meetings totaling € 5 thousand (previous year: € 4 thousand). As of December 31, 2010, there were no advance payments for travel costs (previous year: € 20 thousand) and no other advance payments (previous year: € 0).



## J. Other information

### INFORMATION ON RELEVANT EVENTS AFTER THE REPORTING DATE

The Supervisory Board member Mr. Ferdinand Graf von Thun und Hohenstein on January 14, 2011 resigned his mandate due to health reasons. Following a proposal by the Board of Directors, Mrs. Susanne Klimek, CEO of Salvator Vermögensverwaltungs GmbH, was appointed the new Supervisory Board member on January 24, 2011 by the District Court Berlin-Charlottenburg.

On January 13, 2011, the MOLOGEN Board of Directors with approval of the Supervisory Board resolved to use the existing authorized capital in accordance with Section 4 Para. 3 of the bylaws and to conduct a capital increase with pre-emptive subscription shareholders' rights. The share capital is to be increased from € 11,213,348 to up to € 12,459,275 through the issuance of up to 1,245,927 new shares. The cash inflow from the capital increase serves to strengthen the equity basis. It is to finance the further growth of the company through the extension of the product pipeline and the financing of the required ongoing business activities. The new shares are entitled to receive profit payouts or dividends starting January 1, 2010.

The subscription price for the shares offered during the subscription offering of up to 1,245,927 new shares were determined on January 25, 2011 with the approval of the Supervisory Board at a price of € 8.00 per new share.

On February 1, 2011, it was announced that the 1,245,927 new shares could be fully placed. The gross emission proceeds amounted to about € 10 million. The application for entry of the execution of the capital increase in the Commercial Register was submitted on February 3, 2011 and the entry was conducted on February 4, 2011.

### STATEMENT OF THE BOARD OF DIRECTORS ON THE GERMAN CORPORATE GOVERNANCE CODE

In accordance with Section 161 of the German Stock Corporation Act, the Board of Directors and the Supervisory Board of MOLOGEN published their statement regarding conformity with the German Corporate Governance Code for 2010 on the company's website (www.mologen.com) in March 2009, thus making it available to all shareholders. In addition, the Board of Directors and Supervisory Board made an updated statement in November 2010, which resulted from changes in the bylaws of the company resolved in the Annual General Meeting on June 7, 2010 and changes in the German Corporate Governance Code (DCGK) on May 26, 2010. This updated statement was published on the company's website and was thus made available for all shareholders.

The statement for 2011 (see information in the Management Report) is expected to be published, and made continuously accessible on the company's website in March 2011 for the shareholders, as well as published in the 2010 annual report.

### APPROVAL OF THE FINANCIAL STATEMENTS

The annual financial statements were approved by the Board of Directors and released for publication on March 2, 2011.

Berlin, March 2, 2011
Board of Directors of Mologen AG

Dr. Matthias Schroff
Chief Executive Officer

Jörg Petraß
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 to December 31, 2010. 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 principles of proper accounting 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 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 principles of proper accounting.

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

Leipzig, March 2, 2011
Rölfs WP Partner AG
Wirtschaftsprüfungsgesellschaft

Mario Hesse
German Public Auditor

Stefan Schmidt
German Public Auditor

Mologen AG, Berlin
Individual Annual Financial Statements prepared in accordance with article 325 (2a) HGB for the year ended December 31, 2010 – in accordance with IFRS as adopted by the EU – and Management Report for the financial year 2010

## Responsibility Statement by the Board of Directors

To the best of our knowledge, and in accordance with the applicable reporting principles, the individual financial statements pursuant Section 325 Para. 2a HGB 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 2, 2011
Board of Directors of Mologen AG

Dr. Matthias Schroff
Chief Executive Officer

Jörg Petraß
Chief Financial Officer

# CORPORATE CALENDAR 2011

**March 30, 2011**
Annual Financial Statements 2010

**May 12, 2011**
Quarterly Report as of May 12, 2011

**June 7, 2011**
Annual General Meeting 2011

**August 12, 2011**
Half-Year Report as of June 30, 2011

**November 14, 2011**
Quarterly Report as of September 30, 2011

**November 22–24, 2011**
German Equity Forum Fall 2011

# 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 and its affiliated companies 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.

# IMPRINT

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