

MOLOGEN AG

MOLOGEN AG, Berlin

**Consolidated financial statements for the fiscal year 2005
(according to IFRS)**

Mologen AG, Berlin

Group Management Report for the Fiscal Year 2005

Business and Conditions

Business Model

In the past years, MOLOGEN has developed two technologies that allow for and ease the use of DNA (deoxyribosenucleic acid, the carrier of genetic information in all life forms) as a therapeutic treatment against illnesses that are currently incurable or for which no satisfactory treatment exists. These technologies have been patented and are now being marketed under the brand names MIDGE and dSLIM.

Using these technologies, MOLOGEN develops new therapeutics and treatment methods up to a certain stage. For further, capital-intensive development activities necessary to bring the products to the market, MOLOGEN is planning on establishing cooperations with pharmaceutical corporations and other business partners. According to the business model, MOLOGEN should receive performance-related payments, as well as a share in the turnover if the product is marketed by the partner. If implemented successfully, this business model promises an extremely high potential yield. Before this potential can be exploited fully, further developments need to be made and financed.

For this reason, MOLOGEN has once again revised and improved this business model, as in previous years. The improved components shall

- lead to a much earlier and significant inflow of funds from development projects;
- relieve MOLOGEN from a major share of development costs by means of a specially structured license-agreement model, without involving any major losses in the future yield potential;
- improve the protection and yield of the relevant technologies.

Following the fiscal year 2005, the main structural characteristics of the business model are:

- Short-term yield potential (2006) through the acquisition of orders in the areas commissioned production, supply of material for cell-based gene therapy to licensees, supply of source material for molecular medicine, out-licensing of MIDGE and dSLIM technologies and their applications (e.g. leishmaniosis vaccine, cell-based gene therapies)
- Mid-term yield potential for the following five years through out-licensing and milestone payments for proprietary product developments, cooperative efforts and supplier contracts
- Long-term yield potential through participation in sales of therapeutics, milestone payments for out-licensed product developments and supplier contracts

- Vivotecnia operates successfully in the area of commissioned research contracted from other biotech or pharmaceutical enterprises and institutions.

Business Development

In the fiscal year 2005, MOLOGEN has met all the important self-defined objectives:

- Smaller studies and test series have been successfully carried out in cooperation with our Chinese partner STARVAX. If all remaining necessary work is completed as expected, we will reach an important cornerstone for the cooperation in 2006 by applying for the pharmaceutical license in China. Through simultaneously conducted negotiations with prospective license partners in Asia, STARVAX was able to provide evidence of the technology's potential.
- The fundamental work on the development of a vaccine against canine leishmaniosis, critical for MOLOGEN, was successfully completed in 2004. In 2005, the related task of increasing the vaccine's future value and attractiveness for the pharmaceuticals industry could be completed with follow-up work in some areas, and rounded off by additional evidence and data. In the past fiscal year, we did not finalize any license agreement for the further development of the vaccine with an international pharmaceuticals company. However, the latest developments at the beginning of the current fiscal year suggest that an agreement will be reached with a major US pharmaceuticals corporation in the near future.
- The Spanish subsidiary Vivotecnia was able to increase both its turnover and its net profit. Particularly positive in this respect is the increase in outside orders.
- The current projects dedicated to implementing the cell-based gene therapy in cooperation with a number of partners in various regions of the world can be described for the most part as very positive. For one, the licensing work in the European regions did make some considerably advancements. Secondly, substantial interest in cell-based gene therapy could be raised through intensive business-development activities. At the same time, new opportunities for negotiations with potential licensees and with partners for our rewards model have arisen as the transport and storage properties of the therapeutic could be considerably improved, allowing the cell-based gene therapy treatment to take place at independent locations. From this, MOLOGEN expects a medium-term optimization of the income flow.
- We were able to advance our negotiations in Asia, and particularly in India, to a promising stage, so that it now seems possible that a deal may be closed in the near future. Furthermore, we are aiming at prompt closures in additional regions. 12 to 18 months may be expected as a realistic timeframe for the first steps towards marketing.
- During the same reporting period, the development of our newly started partnerships with our Arabic business partners has turned out to be more complex and protracted than expected. Under these circumstances, some sub-ordinate objectives have not been met. Particularly difficult and drawn-out was the process of gaining the building permission for the construction of the centers, and the related founding of INMOG. The profits expected for 2005 from this project could therefore unfortunately not be booked as an asset.

Having terminated the contracts, MOLOGEN was able to advance the already initiated restructuring process. The company's profit situation can therefore be expected to improve significantly in the future. Also, the development will lead to an optimized, more flexible negotiation basis for MOLOGEN. Another positive development with regard to the treatment and marketing licenses were the negotiations with public authorities and government officials in the Middle East. According to the consultants involved, these negotiations have advanced to a very promising stage, or are even on the brink of successful deal closure. Based on the negotiations and discussions held so far with interested Arab and Middle East companies and investors, MOLOGEN has a clear prospect of coming to a successful closure by combining its achievements to this day with a positive redirection of the logistic chain for cell-based gene therapy.

New Basis for License Agreement Negotiations

Due to a number of different partnership deals closed by competitors like Coley (partnership with Pfizer) and Hybridon (partnership with Novartis), the basis for license negotiations for a large part of MOLOGEN technologies has improved significantly. Through targeted business development activities, we were able to take advantage of this positive momentum in order to initiate and extend new negotiations with potential global partners.

Expansion of Production Capacities

MOLOGEN obtained the production license according to the German Pharmaceuticals Law (AMG) for the active components of the MIDGE®-based DNA vaccine against leishmaniasis in animals.

In order to be able to carry out clinical studies, MOLOGEN needed to increase the production scale. This increase was realized in accordance with GMP (Good Manufacturing Practice) standards. The expansion process for the Berlin branch, initiated in the past year, was thus brought to a successful completion.

Moreover, MOLOGEN received the official confirmation that no production license according to the German Pharmaceuticals Laws is required for the production of the DNA-based immune modulator dSLIM, and that the molecule is not subject to laws governing genetic engineering, either. This means that MOLOGEN can produce the dSLIM component in accordance with GMP and MOLOGEN quality control standards.

Patents

The United States Patents and Trademark Office released MOLOGEN's issuing certificate for the patent on the dSLIM technology (patent no. 6,849,725 B2). Obtaining the dSLIM basic U.S. patent is of particular importance for MOLOGEN's current development and marketing stages. The European Patent Office had granted the first dSLIM patent as early as the beginning of 2004. Future dSLIM-based pharmaceuticals and vaccines are now protected by patent law until the year 2020.

The European Patent Office informed MOLOGEN that the basic patent for the MIDGE-TH1 technology was awarded in late 2005. MIDGE-TH1 can be used to produce highly specific, efficient DNA vaccines that control the immune system in such a way that it triggers the so-called TH1 mode as a response against infections. In the TH1 mode, the immune system attacks infectious agents reproducing inside the cell.

Cooperations

- Infectious Disease Research Institute (IDRI), Seattle, WA: master agreement on the development of vaccines against grave illnesses in humans.
- Max Planck Institute for Infection Biology, Berlin: research on a new vaccine against tuberculosis in humans.
- University of Veterinary Medicine Hannover: development of a vaccine against an economically significant viral bovine infection; a MIDGE-based vaccine is being tested on cattle.
- Vaccine and Infectious Disease Organization (VIDO), Saskatchewan, Canada: research on a MIDGE-based vaccine against an economically significant viral bovine infection, test series on mice completed, publication in preparation

Research and Development

A major part of the resources available to MOLOGEN is invested directly in research and development projects. Expenses for this business area amount to approximately 2.2 million € (2.3 million € in 2004).

Improved Capital Market Situation

Market prospects for bio-pharmaceutical companies have improved further, leading to increased investor interest in these companies. Most listed German biotech companies have used the market uplift as an occasion to raise funds in second round financing through capital increases or other marketable financing instruments.

Due to a targeted, effective expansion of our investor relations activities, MOLOGEN was able to place repeated successful capital increases. In this context, MOLOGEN evaluates the interest of institutional investors who committed with a long-term perspective as very positive. Through capital increases, MOLOGEN raised 8.3 million €..

Results

With -4.1 million €, EBIT fell ca. 2.0 million € below the previous year's EBIT of -2.1 million €. On the same scale, the result before minority shares was -4.4 million €, a decrease of 2.3 million from the preceding year's -2.1 million €.

Accountable for this clear result development was the dependence on individual partners and license agreements. Sales revenue in 2005 was 0.8 million € (2.1 million € in 2004). This

development is due to the missed revenue from the contracts with INMOG as well as the license business.

Funding from government programs, one of which was completed during the reporting periods and two others still running, yielded a total of 318 thousand €. The two running programs progressed as planned. No further government funding for new projects have been applied for in the business year 2005.

Material expenses decreased by 12 % or 0.1 million € in relation to the previous year. The main reason for this is the minimized demand for cooperative services.

Personnel expenses have increased by ca. 25 %, due to the higher number of employees and the payment of performance-related bonuses.

Other operational expenses amount to 2.5 million €. After provision for depreciation (2005: 0.3 million €; 2004: 0.2 million €), there is an increase of 33 % compared to the previous year. This is mainly due to value adjustments in connection with the INMOG project.

Financial Standing

Investments

During the reporting year, MOLOGEN AG has invested 0.8 million € (0.9 million € in 2004) in long-term assets. The main additions concern loans paid to WWD. These loans were fully value-adjusted as of December 31, 2005 (0.4 million €). Contracts concerning the planned joint venture INMOG were terminated. The license model is now location-independent.

Depreciation

At just about 0.4 million €, planned depreciations have remained on the same scale as in the previous year (2004: roughly 0.3 million €).

Financial State

Development of Liquidity

MOLOGEN's balance sheet total has increased to 10.0 million € in the past fiscal year, from 4.9 million € in 2004. Liquid assets amount to 7.8 million € (2004: 2.3 million €), ca. 78 % of the balance sheet total (2004: ca. 43 %).

In the reporting period, the company implemented a number of financing measures. Three capital increases could be placed, yielding 8.3 million € of liquid assets. Capital stock and capital reserve could thus be strengthened. In addition, the company gained 1.1 million € of funds from exercising stock options.

Cash flow was thus increased in total from -0.7 million € in 2004 to 5.6 million € in 2005. The current equity ratio is 91 % (2004: 84 %).

In the past fiscal year 2005, the company was financed exclusively by own funds.

Supplementary Report

MOLOGEN terminated the joint venture agreement with the Arab business partners of INMOG. The joint venture had been established to market MOLOGEN's cell-based gene therapeutic cancer treatment in the Middle East, and had been issued an exclusive license by MOLOGEN for this purpose. The turnover expected for the past year had not been reached by the date of termination. The investments in the joint venture are partly exhausted and were therefore depreciated.

Risk Report

Chances and Risks

The extraordinary profit chances of the MOLOGEN business model must be seen alongside the technological, financial, regulatory, patent-law and most particularly, sales risks. So far, the business model could not be confirmed through the closure of cooperation agreements with pharmaceutical or other partners. A further delay in the aspired contract conclusion could affect MOLOGEN's future business development unfavourable.

In addition to this, the following, interconnected problem areas could in 2006 develop into risks that may compromise MOLOGEN's assets and impact the business development:

- Unexpected problems in the current pre-clinical and clinical developments of products based on MIDGE and dSLIM
- Dependence on a small number of potential business partners implicit in the business model
- No continuing access to the capital market
- Legal problems concerning patent and licensing laws may inhibit or delay deal closures or reduce the economic attractiveness
- The closure of the cooperation agreement with Campus Benjamin Franklin (CBF), Department of Medicine, has been protracted until the reporting date. This agreement contains regulations concerning, among other things, MOLOGEN's access to specified laboratory and equipment facilities of the CBF.
- MOLOGEN's activities in countries outside of Europe imply country-specific risks to which business operations have not been exposed to a relevant extent before. MOLOGEN will take all feasible measures to protect itself against such risks.

In order to avert liquidity shortages in the case that asset-endangering risks and risks that impact the development occur in the course of 2006, MOLOGEN has the option to temporarily suspend certain cost-intensive activities and projects, and to thus reduce the outflow of funds effectively within a few weeks.

Risk Management System

MOLOGEN AG has established a risk management system that is continually updated to meet the newest requirements. Through a detailed scientific and financial controlling system, organizational security measures and clearly defined work processes, the planning, control, and coordination of even very complex project activities are secured adequately in risk situations. In addition, MOLOGEN closely monitors the progress of all ongoing projects and discusses the regular reports jointly with the respective cooperation partners.

Prognosis Report

In 2006, MOLOGEN will continue on the path pursued in the previous fiscal year:

- Consolidation and expansion of MOLOGEN's position in the area of cell-based gene therapy with global business partners and cooperations that should yield significant short-term revenue
- Out-licensing of dSLIM to and following development cooperation with a large pharmaceutical company, as practiced in the leishmaniosis project
- Targeted planning and take-up of development projects in order to increase the technology pipeline's potential and make it more attractive to cooperation partners
- Continuation and expansion of the cooperations with Chinese companies. These cooperations enable MOLOGEN to finance its product pipeline to a large part through partners, and at the same time expand it quickly and with a considerably profit potential which will remain with MOLOGEN
- Further targeted expansion of investor relations activities in order to effectively improve the necessary access to the capital market that is inevitable to finance the company's planned growth
- Further increase of Vivotecnia's sales profitability through external growth

The company's business strategy aims at very high mid- and long-term profits. If additional expenses and investments are required to achieve this goal, these measures would be taken even at the expense of a short-term profit optimization.

Berlin, March 21, 2006

MOLOGEN AG
Board of Directors

**MOLOGEN AG – Consolidated Balance Sheet
according to IFRS as of December 31, 2005
audited**

	Notes	Dec 31, 2005 in thousand €	Dec 31, 2004 in thousand €
ASSETS			
Non-current assets		1,739	1,681
Tangible assets	1	915	983
Intangible assets	2	816	687
Financial assets	3	0	0
Financial assets at equity	4	0	0
Other non-current assets	5	8	11
Current assets		8,261	3,233
Liquid funds	6	7,831	2,260
Trade accounts receivable	7	141	638
Inventory	8	87	99
Other current assets	9	202	236
Total		10,000	4,914
LIABILITIES AND SHAREHOLDERS' EQUITY			
Non-current liabilities		319	378
Other non-current liabilities and deferred income	10	238	262
Provisions	11	81	116
Current liabilities		603	590
Trade account payable	12	355	402
Other current liabilities		225	150
Provisions		23	38
Shareholders' equity		9,078	3,946
Share capital	13	8,358	6,172
Capital reserve	14	16,644	9,212
Balance sheet loss	15	-15,945	-11,457
Minority interests	16	21	19
Total		10,000	4,914

MOLOGEN AG – Consolidated Statement of Profit and Loss
audited according to IFRS as of December 31, 2005

	Notes	Jan 01 – Dec 31	
		2005	2004
		in thousand €	in thousand €
Revenues	17	847	2,093
Other operating income	18	811	502
Increase/decrease of stock of finished or unfinished products		-27	59
Purchases / Expenses for raw materials and supplies	19	-665	-753
Personnel expenses	20	-2,150	-1,725
Depreciation	21	-358	-273
Other operating expenses	22	-2,510	-1,984
Operating result (EBIT)		-4,052	-2,081
Financial result	23	-336	30
Result before taxes (and minority interests)		-4,388	-2,051
Taxes	24	-4	-2
Result before minority interests		-4,392	-2,053
Minority interests	25	-2	-2
Annual deficit		-4,394	-2,055
Deficit carried forward		-11,551	-9,402
Balance sheet deficit		-15,945	-11,457
Earnings per share (in Euro)	26	-0.53	-0.39

**MOLOGEN AG – Consolidated Statement of Cash Flow
according to IFRS as of December 31, 2005
audited**

	Notes	Jan 01 – Dec 31, 2005 in thousand €	Jan 01 – Dec 31, 2004 in thousand €
Cash flow from operating activities			
Annual deficit before tax (and minority interests)		-4,388	-2,051
Depreciation from fixed assets		700	254
Deficit from divestiture of fixed assets		3	2
Decrease in provisions		-50	100
Other non-cash income		76	-45
Taxes		-4	-2
Minority interests		-2	-2
Change in trade accounts receivable, inventories, and other assets		546	-7
Change in trade accounts payable and other liabilities		27	-12
Net cash used for operating activities		-3,092	-1,763
Cash flow from investing activities			
Purchases of property, plant, and equipment		-153	-269
Purchases of intangible assets		-241	-600
Purchases of financial assets		-370	0
Net cash used for investing activities		-764	-869
Cash flow from financing activities			
Cash receipts from issuing of capital		9,427	1,973
Proceeds from sales of shares to minority shareholders		0	5
Net cash used for financing activities		9,427	1,978
Total change in liquidity (cash flow)		5,571	-654
Liquid funds at beginning of period (including securities)		2,260	2,914
Liquid funds at end of period (including securities)	27	7,831	2,260

MOLOGEN AG – Consolidated Statement of Changes in Shareholders' Equity
according to IFRS as of December 31, 2005
in thousand Euro excluding share information
audited

	Parent company					Minority	Group equity	
	Share capital		Capital con- tributions	Capital reserves	Balance sheet loss	Equity		Minority capital
	Number of shares	Capital stock						
Balance as of December 31, 2003	5,111,331	5,111	0	8,300	-9,402	4,009	12	4,021
Capital increase for cash contribution	1,061,000	1,061		912		1,973		1,973
Result before minority interests					-2,053	-2,053		-2,053
Minority interests					-2	-2	7	5
Balance as of December 31, 2004	6,172,331	6,172	0	9,212	-11,457	3,927	19	3,946
Capital increase for cash contribution	1,883,800	1,884	0	6,416		8,300		8,300
Exercise of share options	301,717	302		825		1,127		1,127
Value of services rendered by employees (first-time application of IFRS 2, retroactive for previous years)				95	-95	0		0
Value of services rendered by employees (according to IFRS) in 2005				96		96		96
Results before minority interests					-4,392	-4,392		-4,392
Minority interests					-2	-2	2	0
Rounding difference					1	1		1
Balance as of December 31, 2005	8,357,848	8,358	0	16,644	-15,945	9,057	21	9,078

**MOLOGEN AG - Consolidated Fixed Assets Trend for the fiscal year 2005
according to IFRS in thousand Euro
audited**

	Purchasing and production costs					Depreciation				Net book value	
	As of 01-01-05	Additions	Divestitures	Reposting	As of 12-31-05	As of 01-01-05	Additions	Divestitures	As of 12-31-05	As of 12-31-05	As of 12-31-04
I. Tangible assets											
1. Technical equipment and machinery	1,299	131	11	0	1,419	528	169	9	688	731	771
2. Other furniture and office equipment	520	22	32	0	510	308	49	31	326	184	212
	1,820	153	43	0	1,929	836	218	40	1,014	915	983
II. Intangible assets											
1. Licenses, industrial property rights, and similar rights and values	1,453	241	0	600	1,694	766	112	0	878	816	687
2. Company value	600	0	0	-600	0	0	0	0	0	0	0
	1,453	241	0	0	1,694	766	112	0	878	816	687
III. Financial assets											
1. Loans to companies in which shares are held	357	0	0	0	357	357	0	0	357	0	0
2. Other loans	0	370	0	0	370	0	370	0	370	0	0
	357	370	0	0	727	357	370	0	727	0	0
	3,629	764	43	0	4,350	1,959	700	40	2,619	1,731	1,670

Molgen AG, Berlin

Notes to the Consolidated Financial Statement for the Fiscal Year 2005

A. The company: general information

Molgen AG (hereafter: MOLOGEN), headquartered in Berlin (Fabeckstraße 30, D – 14195 Berlin, Germany) is a stock corporation according to German law. The company was founded on January 14, 1998, and is registered with the local district court of Berlin-Charlottenburg under HRB 65663. The company's shares are listed under ISIN DE0006637200 on the regulated market at the Frankfurt Stock Exchange and are assigned to the General Standard.

The objective of the company is to research, develop, and market products in the area of molecular medicine. In particular, this encompasses biomolecular vaccines and application-focused clinical research on biomolecular tumor therapy, including somatic gene therapy. The main focus of research is on the technologies MIDGE and dSLIM, on which MOLOGEN holds the patents. These technologies allow for the use of DNA as a therapeutic treatment against diseases that were previously incurable or treatable only to an unsatisfactory degree.

B. The consolidated financial statement: general information

General principles

The accounting and evaluation methods and principles governing this financial statement described in the following notes have been applied consistently in the presented reporting periods, unless otherwise stated.

This consolidated financial statement was prepared and accordance with the current International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS), including the interpretations by the Standing Interpretation Committee (SIC) of the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), respectively, as applicable in the EU. The preparation of the consolidated financial statement also conforms to the IFRS as a whole and to the amendatory trade law regulations applicable according to § 314 a, section 1 of the German Commercial Code. New standards issued by the IASB will be conformed to from the date of their taking effect.

All standards valid and bindingly applicable in the fiscal year 2005 have been considered, leading to the communication of a representation of the company's factual assets, financial, and results situations.

The IFRS 2 "Share-Based Payment" standard, issued and published recently by the IASB, has been applied for the first time in this consolidated financial statement for the fiscal year 2005.

This consolidated financial statement does not comprise accounting and evaluation methods according to German commercial code that are in conflict with IFRS/IAS or IFRIC/SIC.

The reporting period for this consolidated financial statement is January 01, 2005 to December 31, 2005.

Amendments to valid regulations published until December 31, 2005 as well as newly issued standards and interpretations that have not yet taken effect for MOLOGEN AG have not been considered in the preparation of this consolidated financial statement. They would, however, not have had any effect on the representation of the company's factual assets or its financial and results situations. These amendments are: amendment of IAS 1 "Capital Disclosures"; IAS 19 "Actuarial Gains and Losses"; amendment of IAS 39 „Cash Flow Hedge Accounting of Forecast Intragroup Transactions“; amendment of IAS 39 „Fair Value Option“; amendment of IAS 39 in combination with IFRS 4 „Financial Guarantee Contracts“; amendment of IFRS 1 "First-time Adoption of International Financial Reporting Standards"; IFRS 6 „Exploration and Evaluation of Mineral Resources“; amendment of IFRS 6 "Exploration and Evaluation of Mineral Resources"; IFRS 7 "Financial Instruments Disclosures"; IFRIC 4 „Determining whether an Arrangement contains a Lease“; IFRIC 5 „Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds“; IFRIC 6 "Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment"; IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies".

Functional currency and representative in this consolidated financial statement is the Euro (€). For better readability, all numbers are given in thousand €. The balance sheet structure conforms to the new IAS 1 structuring principles (revised 2003). Maturity terms for the fiscal year 2005 as well as the preceding year are thus given as short-term for terms under 12 months and long-term for terms exceeding 12 months. The balance-sheet items tangible assets, intangible assets, and financial assets are all exclusively long-term. The balance-sheet items inventories, trade accounts receivable, liquid funds, other provisions, and trade accounts payable are exclusively short-term. The balance-sheet items other assets and other liabilities have been itemized as long-term or short-term, depending on their remaining duration. The consolidated statement of profit and loss was prepared following the total expenditure format according to § 275 of the German Commercial Law.

The IFRS/IAS deviates from the regulations of German Commercial Law in the following relevant and substantial points:

- Depreciation on movable property, plant, and equipment takes place over the economic serviceable life and are not based on tax-specific regulations as in German Commercial Law.
- Insofar as ownership of leased items can be ascribed to the company, the leased item is activated at the date of the lease contract's signing to the amount of fair value or the lower cash value of the leasing rates. The depreciations are carried out as scheduled over the common operating service life according to comparable purchased items of the tangible fixed assets. Liabilities resulting from future leasing rates are accounted as liabilities and listed accordingly as long- or short-term liabilities.
- Valuation of the inventory is always at original cost and is influenced by the depreciation on tangible assets amended according to IFRS.

- Some items that would be accounted as provisions according to German Commercial Law regulations are listed as liabilities according to IFRS in the consolidated financial statement.
- IFRS 2, share-based compensation, was exercised for the first time in the fiscal year 2004. These expenses are listed as personnel expenses; equity costs have been considered in the capital reserves.
- According to IAS 32.37, equity capital procurement costs are depreciated directly from capital reserves.

C. Consolidation and operation

Circle of consolidation

The circle of consolidation includes MOLOGEN as parent company and Vivotecnia Research S.L. (abbreviated: Vivotecnia; formerly Mologen Molecular Medicines S.L., Madrid, Spain). As of December 31, 2005, MOLOGEN holds 97 % of Vivotecnia's shares.

Consolidation principles

The consolidated financial statement is established as of the appointed date of the parent company's financial statement, December 31, 2005.

The financial statements of the consolidated companies are prepared according to the parent company's consistent accounting and evaluation methods. A full consolidation according to the book value method is carried out. Similar items of the financial assets and liabilities, equity, profits, and expenses in the financial statements of the parent company and the subsidiary are subsumed in the consolidated financial statement. The parent company's shares in the subsidiary and the subsidiary's equity as well as turnovers, expenses, receivables, and liabilities between the two included companies are eliminated.

The elimination of intercompany profits and loss was abstained from as insubstantial.

Minority interests in Vivotecnia's operating profit of the period have been accounted in the consolidated operating profit, so that only the parent company's operating profits of the period are included in the consolidated financial statement. Minority interests are itemized separately under equity in the consolidated financial statement. Minority interests in the consolidated balance are also itemized in the consolidated statement of profit and loss.

Accounting and valuation methods

On principle, the applied accounting and valuation methods are adhered to consistently.

The consolidated financial statement was prepared in accordance with the historical costs principle.

Preparation of the consolidated financial statement according to IFRS requires assumptions or assessments in relation to some items. These affect the approach in the company's balance or profit and loss statement. All assessments are continually revised, and are based on historical experience as well as other factors, including expectations concerning future events, deemed sensible under the given circumstances.

In accordance with the cost model (IAS 16.30), both tangible assets and intangible assets will be valued at original cost minus scheduled depreciation due to use. Depreciation is linear pro rata temporis, beginning with the month of purchase or beginning of utilization. The useful economic life lasts between 3 and 10 years (software and patents 3 – 10 years, technical equipment 4 – 10 years, furniture and office equipment 3 – 10 years). Depreciations on tangible and intangible assets are listed in the consolidated statement of profit and loss under depreciations.

Financial assets are valued at continued purchase cost or the lower fair value at the balance sheet date, if a continuing decrease in value is to be expected.

According to IAS 17, the beneficiary ownership of leased object is to be valued to the lessee if he bears all substantial risks and chances in connection with the leased objects (financing lease). Insofar as the beneficiary ownership is valued to the company, the leased object is activated at the signing date of the lease contract at fair value or the leasing rates' lower cash value. The depreciations are carried out as scheduled over the common operating service life according to comparable purchased items of the tangible fixed assets. Liabilities resulting from future leasing rates are accounted as liabilities and listed accordingly as long- or short-term liabilities.

Public contributions are accounted with their actual cash value if it is to be expected with great certainty that the contribution will be paid out and that the company will meet the required conditions for receiving them.

Public contributions for costs will be stated for the time period in which the costs for which they compensate are incurred.

Public contributions for investments will be listed as accrual items under long-term liabilities. They will be dissolved lineally over the individual assets' serviceable expected service life, affecting net income.

According to IAS 38.57, **proprietary development costs** for intangible assets can be capitalized if identified as such and if future cash flows can be ascribed to them clearly and with a high degree of probability. Since not all criteria required by IFRS could be met simultaneously, development costs were not capitalized.

Asset disposals include purchase and production costs as well as accumulated depreciation. Profits from asset disposal (proceeds from asset disposal minus net book value) are listed in the consolidated statement of profit and loss under other operating income.

Financial assets with undefined maturity will not be depreciated according to a schedule; they are revised annually for required impairment (IAS 36). Financial assets subject to scheduled depreciation are checked for required impairment if events or changes of circumstances suggest that the book value may not be attained. Impairment losses are accounted at the book value exceeding the attainable amount. The attainable amount is the higher amount resulting from the financial asset's actual cash value minus disposal cost and use value. For the recoverability test, financial assets for which cash flows can be defined separately are comprised on the lowest level. The recoverability test revealed no impairment requirement.

Liquid funds include cash assets, short-term bank deposits and time deposits at fair value.

Liabilities are accounted at par value. Risks of default are considered through value adjustment.

Financial assets accounted as **inventories** are finished products and goods. Raw materials and supplies are not stocked to any noteworthy extent.

Finished products (genetic constructs) are accounted at the lowest value from purchase and production expenses and net sale value. Inventories are accounted at purchase and production expenses, which are capitalized based on production-related full cost according to IAS 2. This includes direct material costs and indirect costs, direct production costs and indirect costs, and relevant depreciation of material assets.

Other short-term assets are accounted at purchase cost.

Provisions (IAS 37) are liabilities with unknown settlement date and amount. They are formed for past events for which there is a current obligation. This obligation is plausible and its amount can be reliably estimated.

Liabilities are accounted at the amount payable.

Tax accruals and deferrals are implemented on temporary differences between the included company's commercial and tax balance sheets. Accruals and deferrals are formed for the amount of the expected tax burden or tax relief of the following fiscal years. Deferred tax assets from accruals are only considered if their realization appears sufficiently secure. Tax assets and tax liabilities are only netted out if they can be charged against each other in relation to one tax office.

Since its foundation, MOLOGEN has not in any year achieved profits from its business activities. According to German law, MOLOGEN'S accumulated corporate tax deficit of 24.4 million € (2004: 18.9 million €) can be balanced against future profits. However, future possibilities of balancing are uncertain for different reasons: for one, the possibilities of crediting against tax deficits may be limited by certain past and future changes in the ownership situation, secondly, tax laws may change, and thirdly, the future profitability is not easily predictable. For these reasons, there has been no valuation of deferred tax receivables.

Equity shares are classified as **equity capital**. Expenses related directly to the issue of new shares or options are balanced under equity (net value after tax) as deduction from issue profits.

Expenses and income of the fiscal year will be considered at the time they are realized, regardless of the time of payment. Profits from the sale of products, goods, and services are realized when the service has been provided or the goods have been delivered, after the transfer of perils and at the time the amount of the expected reward can be reliably appraised

Taxes for income received (corporate taxes and trade income taxes) are determined according to national tax law regulations.

D. Notes on the consolidated balance as of December 31, 2005

Assets

Long-term assets

1) Tangible assets

Net tangible assets declined by 68 thousand € to 915 thousand € in the reporting period, from 983 thousand € in the preceding year. Investments of 153 thousand € stood against common depreciation.

The development of tangible assets is represented in the consolidated fixed assets trend..

(2) Intangible assets

In the reporting period, the value all intangible assets in the financial statement increased by 129 thousand € to 816 thousand € (2004: 687 thousand €). Intangible assets comprise purchased patents and licenses (residual book value: 778) and software (residual book value: 38 thousand €).

Investments of 241 thousand € stood against common depreciation.

The development of intangible assets is represented in the consolidated fixed assets trend.

Research and development

The resources available to the company are used to large extent directly for research and development projects. Expenses in this area amount to 2.2 million € (2004: 2.2 million €)

(3) Financial assets

MOLOGEN's financial assets comprise loans to companies in which shares are held as well as other loans. They are accounted at the lower value, and amount to 2.00 € (2004: 2.00 €).

(4) Financial assets at equity

MOLOGEN holds 28.3 % shares in bcd biomedical consulting + development, Berlin (bcd GmbH). In February of 2004, bcd GmbH filed for insolvency. The book value of participating interest and the receivables for loans are accounted with a reminder value of 1.00 € (2004: 1.00 €).

(5) Other financial assets

Other financial assets comprise employee loans of 8 thousand € (2004: 11 thousand €). On the reporting date, the remaining term to maturity was more than one year.

Short-term assets

(6) Liquid funds

Liquid funds at reporting dates amounted to 7,831 thousand € (2004: 2,260 thousand €), and comprise call money and bank deposits with a remaining term to maturity of less than one year.

Fixed-term deposits in the amount of 74 thousand € (2004: 74 thousand €) are bonded. Of these, 49 thousand € (2004: 49 thousand €) are used as collateral for rental securities, and 25 thousand € (2004: 25 thousand €) as collateral for bank security for a long-term loan of 77 thousand € (2004: 92 thousand €) from the Spanish Ministry of Sciences (the loan is listed under "long-term liabilities," (10))

(7) Trade accounts receivable

Trade accounts receivable of 141 thousand € (2004: 638 thousand €) have been accounted at par value. Their remaining term to maturity on the reporting date was less than one year. Risks of default are considered through individual value adjustments of 631 thousand € (2004: 40 thousand €).

(8) Inventory

Inventory asset stocks are accounted at their respective purchase or production costs.

Inventory assets amounted to 87 thousand € (2004: 99 thousand €) at the date of the financial statement, composed as follows:

	Dec 31, 2005	Dec 31, 2004
	thousand €	thousand €
Finished products and goods	87	71
Unfinished products and uncompleted services	0	28
	87	99

Value adjustments on inventory were 48 thousand € in the fiscal year 2005 (2004: 19 thousand €). These were accounted as expense according to IAS 2.34.

There were no reinstatements of original values or pledges as collateral.

(9) Other short-term assets

The accounted value of 202 thousand € (2004: 236 thousand €) is comprised as follows:

	Dec 31, 2005	Dec 31, 2004
	thousand €	thousand €
Tax refund claims	146	114
Claims against tax authorities for investment subsidy	2	98
Other receivables	54	24
	202	236

The amounts listed under tax refund claims are comprised of claims against and liabilities to the same office and may be netted out in accordance with IAS 12.71.

Liabilities

Long-term liabilities

(10) Other liabilities and accrual items

	Dec 31, 2005	Dec 31, 2004
	thousand €	thousand €
Liabilities from loans, rent deposits, and leasing	97	118
Accrual items	86	93
Others	55	51
	238	262

The long-term liabilities from loans, rent deposits, and leasing of 97 thousand € (2004: 118 thousand €) are comprised of a 77 thousand € loan from the Spanish Ministry of Science to Vivotecnia (2004: 92 thousand €), rent deposits of 11 thousand € (2004: 11 thousand €) for the sublease of property, as well as future leasing payments of 9 thousand € (2004: 15 thousand €).

The amounts listed under accrual items are public contributions for assets. The special items formed are dissolved over the individual assets' serviceable life periods.

(11) Provisions

Long-term provisions include 81 thousand € of property acquisition tax (2004: 116 thousand €).

Short-term liabilities(12) Short-term liabilities

The composition of short-term liabilities with a remaining maturity of one year or less is as follows:

	Dec 31, 2005	Dec 31, 2004
	thousand €	thousand €
Trade accounts payable	355	402
Liabilities from social security and income and church taxes	114	67
Other liabilities	111	83
Provisions	23	38
	603	590

Provisions schedule

Thousand €	Balance brought forward	Used 2005	Written back 2005	Transferred 2005	Balance as of Dec 31, 2005
	Jan 01, 2005				
Provisions for inventors' compensations	36	32	0	16	20
Provisions for corporate income tax (Vivotecnia)	2	2	0	3	3
	38	34	0	19	23

Equity(13) Shareholders' equity

MOLOGEN's capital stock is accounted as 8,357,848.00 €, divided into 8,357,848 common shares without nominal value (no-par shares) made out to the holder, with a calculated share of 1.00 € per unit in the capital stock. In the fiscal year 2005, MOLOGEN implemented the following measures relevant to the stock capital:

On April 22, 2005, the Board of Directors decided on a capital increase from authorized capital stock, to which the Supervisory Board agreed on April 25, 2005. Based on and making use of the authorization by the shareholders' meeting of April 29, 2000, the company's capital stock was increased from authorized capital from 6,172,331.00 € to 6,772,331.00 €. The capital increase was implemented by issuing 600,000 new common shares made out to the holder, with a calculated share in the stock capital of 1.00 € each, against cash contributions of 600,000 €. The stock increase was carried out with no rights issue. The capital increase was registered with the trade register on May 03, 2005.

Based on and making use of the authorization by the shareholders' meeting of June 09, 2005, the Board of Directors decided to increase the company's capital stock on August 09, 2005. This decision was agreed to by the Supervisory Board on August 12, 2005. The company's capital stock was increased from authorized capital from 6,772,331.00 € to 7,372,331.00 €. The capital increase was implemented by issuing 600,000 new common shares made out to the holder, with a calculated share in the stock capital of 1.00 € each, against cash contributions of 600,000 €. The stock increase was carried out with no rights issue. The capital increase was registered with the trade register on September 28, 2005.

Another capital increase from authorized capital stock was decided by the Board of Directors on September 23, 2005. The Supervisory Board agreed to this decision on September 26, 2005. Based on and making use of the authorization by the shareholders' meeting of June 09, 2005, the company's capital stock was increased from authorized capital from 7,372,331.00 € to 8,056,131.00 €. The capital increase was implemented by issuing 638,800 new common shares made out to the holder, with a calculated share in the stock capital of 1.00 € each, against cash contributions of 600,000 €. The stock increase was carried out with no rights issue. The capital increase was registered with the trade register on October 11, 2005.

In addition, 166,617 preemptive shares were issued in the fiscal year 2005 from the contingent capital 2003-1 authorized by the shareholders' meetings on May 15, 2003 and June 09, 2005, respectively, and another 135,100 preemptive shares were issued from the contingent capital 2002, resulting in a total of 301,717 preemptive shares issued. Capital stock was thus increased from 8,056,131.00 € to 8,357,848.00 €. The issue of these preemptive shares was registered with the trade register on February 21, 2006.

Authorized capital

The shareholders' meeting of June 09, 2005 decided to authorize the Board of Directors to increase the company's stock capital until June 08, 2010, provided that the Supervisory Board agrees to the increase. According to this authorization by the shareholders' meeting, the capital increase should be implemented by the Board of Directors through the issue of new no-par common shares made out to the holder, issued against cash contribution or investment in kind. The capital increase through issue of shares should be carried out one time or more, yet not exceeding a total amount of 3,086,165.00 € (authorized capital). The Board of Directors was thus authorized by the shareholders' meeting according to § 22, section (2) of the company's by-laws to define a profit participation diverging from legal regulations. The newly issued shares can also be taken over by a financial institution appointed by the Board of Directors, or by a consortium of financial institutions, under the obligation that the shares are offered to the shareholders for purchase (indirect subscription right). Furthermore, the Board of Directors is authorized, with approval of the Supervisory Board, to rule out the shareholders' subscription right

- a) if that is required in order to level out top rates;
- b) if the capital increase does not exceed ten percent of the stock capital and the issue price is not substantially lower than the listed price of the company's already listed shares at the time of the finalization by the Board of Directors,

or

- c) for capital increases against contribution in kind implemented for the purchase of companies, company shares, or financial assets useful for the operation, such as patents, licenses, usage and exploitation rights in intellectual property, as well as other rights in intangible goods and assets.

The Board of Directors was also authorized to determine all further details concerning the issue of new stock with approval from the Supervisory Board.

After partial consumption, the remaining authorized capital currently amounts to 1,802,365.00 €.

Contingent capital

The company currently has the following contingent capital at its disposal:

Contingent capital 2002

The company's stock capital is increased by up to 140,600.00 € of contingent capital through one or more issues of up to 140.600 new no-par shares with a profit participation from the beginning of the fiscal year in which the shares are issued (contingent capital 2002). The capital increase is implemented to grant convertible bonds and/or subscription rights without bond issue to member of the company's Board of Directors, members of the managements of German or international companies affiliated with the company, and employees of the company or its affiliates in Germany and abroad, based on the authorization by the shareholders' meeting of May 17, 2002.

The contingent capital increase will be implemented only in so far as the holders of convertible bonds and/or options issued by the company following the decision of the shareholders' meeting of May 17, 2002 make use of their conversion or subscription rights. The new shares participate in the profit from the beginning of the fiscal year in which they are issued because conversion or subscription rights are exercised. A total of 135,200 conversion rights from the contingent capital 2002 were exercised in the fiscal year 2005.

Contingent capital 2003-1

The company's stock capital is increased by up to 181,950.00 € of contingent capital through one or more issues of up to 181,950 new no-par shares with a profit participation from the beginning of the fiscal year in which the shares are issued (contingent capital 2003-1). The capital increase is implemented to grant convertible bonds and/or subscription rights without bond issue to member of the company's Board of Directors and employees of the company, based on the authorization by the shareholders' meeting of May 15, 2003.

The contingent capital increase will be implemented only in so far as the holders of convertible bonds and/or options issued by the company following the decision of the shareholders' meeting of May 15, 2003 make use of their conversion or subscription rights. The new shares participate in the profit from the beginning of the fiscal year in which they are issued because conversion or subscription rights are exercised. A total of 166,617 conversion rights from the contingent capital 2003-1 were exercised in the fiscal year 2005.

Contingent capital 2004

The company's stock capital is increased by up to 140,000.00 € of contingent capital through one or more issues of up to 140,000 new no-par shares with a profit participation from the beginning of the fiscal year in which the shares are issued (contingent capital 2004). The capital increase is implemented to grant convertible bonds and/or subscription rights without bond issue to member of the company's Board of Directors and employees of the company, based on the authorization by the shareholders' meeting of May 28, 2004

The contingent capital increase will be implemented only in so far as the holders of convertible bonds and/or options issued by the company following the decision of the shareholders' meeting of May 28, 2004 make use of their conversion or subscription rights. The new shares participate in the profit from the beginning of the fiscal year in which they are issued because conversion or subscription rights are exercised.

Contingent capital 2005-1

The company's stock capital is increased by up to 154,683.00 € of contingent capital, divided into 154,683 new no-par shares (contingent capital 2005-1). The capital increase is implemented to grant convertible bonds and/or subscription rights without bond issue to member of the company's Board of Directors and employees of the company, as well as to members of the managements and employees of German or international companies affiliated with the company according to §§ 15 ff., German Stock Companies' Act, based on the authorization by the shareholders' meeting of June 09, 2005.

The contingent capital increase will be implemented only in so far as the holders of convertible bonds and/or options issued by the company following the decision of the shareholders' meeting of June 09, 2005 make use of their conversion or subscription rights. The new shares participate in the profit from the beginning of the fiscal year in which they are issued because conversion or subscription rights are exercised.

(14) Capital reserves

The development of the remaining items of capital stock is represented in the consolidated statement of shareholders' equity.

Capital reserves were formed voluntarily. They contain equity inflow from subscribed capital as well as the offset of goodwill from first consolidation. As required by IAS 32.37, the costs incurred by equity procurement, amounting to 1,096 thousand €, have been accounted to the capital reserves. The first-time application of IFRS 2, share-based compensation, resulted in 96 thousand € in 2005 (and 95 thousand € in 2004) to be considered in the respective capital reserves.

(15) Balance sheet loss

The balance sheet loss includes a loss of 11,551 thousand € (2004: 9,042 thousand €) carried forward from the previous year.

(16) Minority interests

This item contains the minority shareholders' share in the capital stock of Vivotecnia, amounting to 21 thousand € (2004: 19 thousand €). In the consolidated statement of profit and loss, the share of minority shareholders is contained in the item "minority interests."

E. Notes on the consolidated statement of profit and loss for the fiscal year 2005(17) Revenues

Revenues in the fiscal year 2005 amounted to 847 thousand € (2004: 2,093 thousand €).

	2005	2004
	thousand €	thousand €
Goods and services	847	593
Licenses and distribution rights	0	1,500
	847	2,093

(18) Other operating income

Other operating income in the year 2005 was 811 thousand € (2004: 502 thousand €).

	2005	2004
	thousand €	thousand €
Income from issuing employee share options	445	0
Income from subsidies	318	140
Other	48	78
Income from written back provisions	0	56
Income from depreciation of value adjustments and similar	0	156
Income from insurance compensations and similar	0	60
Rental income	0	12
	811	502

Income from subsidies comprises project subsidies from the Investment Bank Berlin and the Federal Ministry of Education and Research. These funds for research expenses are granted on a number of conditions, all of which can be met according to our current state of knowledge. If the company should fail to meet these conditions, refunding liabilities to the amount of 510 thousand € (2004: 298 thousand €) could ensue.

(19) Purchases

	2005	2004
	thousand €	thousand €
Expenses for raw materials and supplies	386	412
Expenses for services used	279	341
	665	753

(20) Personnel expenses

	2005	2004
	thousand €	thousand €
Wages and salaries	1.710	1.468
Social insurance contributions	344	257
Share options granted (in accordance with IFRS)	96	0
	2.150	1.725

On average, the corporation had 39 (2004: 40) employees, 26 of which were employed at MOLOGEN (2004: 25), excluding members of the Board of Directors.

On the date of the financial statement, the employee structure was as follows:

	Dec 31, 2005	Dec 31, 2004
Board of Directors / management	4	4
Research staff	7	11
Commercial staff	8	8
Technical staff	21	22
Trainees and temporary staff	4	3
	44	48

(21) Depreciation

	2005	2004
	thousand €	thousand €
Intangible assets	112	30
Tangible assets	218	224
Inventory	28	19
	358	273

(22) Other operating expenses

In the fiscal year 2005, "other operating expenses" amounted to 2,510 thousand € (2004: 1,984 thousand €).

	2005	2004
	thousand €	thousand €
Marketing / IR	448	513
Legal counsel and consulting costs	400	388
Travel expenses	369	186
Office space costs	212	163
Administration costs	189	98
Maintenance	92	71
Patents	84	110
Employee benefit costs	79	3
Adjustment to receivables	278	187
Other expenses	359	265
	2,510	1,984

In the fiscal year 2005, expenses for auditing amounted to 39 thousand €, other services provided by the auditor incurred costs of 41 thousand €.

(23) Financial results

Financial results in the reporting period amount to -336 thousand € (2004: 30 thousand €), comprised as follows:

	2005	2004
	thousand €	thousand €
Other interest and similar income	40	34
Income from financial investments	1	1
Other interest and similar expenses	-7	-5
Depreciation on financial investments	-370	0
	-336	30

(24) Tax result

This item lists the income-related tax of Vivotecnia.

(25) Minority interests

The amount of 2 thousand € (2004: 2 thousand €) itemized under minority interest results from a proportion of ca. 3% (2004: ca. 3%) of Vivotecnia's annual result allocated to minority shareholders.

((26) Earnings per share

Earnings per share are calculated in accordance with IAS 33 by dividing the consolidated earnings adjusted for minority interests by the weighted average number of shares outstanding during the year.

IAS 33 requires that for the determination of the average value of outstanding shares, all shares issued against cash payment need to be included in the calculation from the time that the payment is claimable. The average determined according to this requirement was 8,288,202 shares in 2005 (2004: 5,317,091 shares).

Undiluted earnings per share were -0.53 € (2004: -0.39))

(27) Liquid funds

Liquid funds listed in the consolidated statement of cash flow (6) are comprised as follows on the respective balance sheet dates:

	Dec 31, 2005	Dec 31, 2004
	thousand €	thousand €
Cash and deposits	7,757	2,186
Bonded deposit	74	74
	7,831	2,260

Cash flow from operating activities includes 7 thousand € of interest payments (2004: 5 thousand €) as well as 40 thousand € interest flow (2004: 34 thousand €).

F. Notes on the MOLOGEN employee participation programs2002 stock option program

The stock option program decided by the shareholders' meeting on May 17, 2002 (AOP 2002) for MOLOGEN AG's members of the management and employees as well as members of the management and employees of MOLOGEN's affiliated companies shows the following development:

At the beginning of the fiscal year, a total of 140,600 options were issued to persons entitled to benefit, exercisable according to the governing conditions. 135,200 options were exercised in the fiscal year; 5,500 remain unallocated.

2003-1 stock option program

The stock option program decided by the shareholders' meeting on May 15, 2003 (AOP 2003) for MOLOGEN AG's members of the management and employees as well as members of the management and employees of MOLOGEN's affiliated companies shows the following development:

At the beginning of the fiscal year, a total of 171,950 options were issued to persons entitled to benefit. 166,617 options were exercised in the fiscal year; 5,333 options expired. No further options from this program remain unallocated.

2004 stock option program

At the beginning of the fiscal year, a total of 137,000 options were issued to persons entitled to benefit. During the fiscal year, 8,000 options expired. 129,000 options from this program remain unallocated as of the date of the financial statement.

2005 stock option program

The key elements of the stock option program decided on the shareholders' meeting of June 09, 2005 (AOP) are as follows:

- Options shall be served from the contingent capital increase 2005-1 implemented for this cause.
- The issue period for these stock options ends on May 31, 2010. The maximum maturity is 3 years.
- Up to 70 % of the options shall be issued to MOLOGEN AG's members of the management and employees, and up to 30% to members of the management and employees of MOLOGEN's affiliated companies.
- The exercise price is determined according to the share's average closing price (arithmetic mean of the closing prices at the regulated market of the Frankfurt Stock Exchange, or after a restructuring of the stock exchange segments, of the closing price in the trading segment at which the share is traded) of the 60 trading days prior to the Board of Directors' decision, or, if the stock options are issued to members of the Board of Directors, the 60 days prior to the decision of the Supervisory Board.
- The options can only be exercised if the share's stock price has increased at least 10 percent from the exercise price for each full year after the issue on the last 10 days prior to the exercise date.
- The waiting period for the first-time exercise of option rights is two years, starting on the issue date.

Stock options are issued to employees as well as members of the management of MOLOGEN's affiliated management by MOLOGEN's Board of Directors. Stock options for member of MOLOGEN's Board of Directors are issued by the Supervisory Board. In the fiscal year 2005, a total of 150,000 stock options were issued to persons entitled to benefit. 105,000 of these options were issued to member of the management of MOLOGEN and affiliated companies, and 45,000 to employees of MOLOGEN and affiliated companies.

4,683 stock options were not issued as of December 31, 2005.

MOLOGEN has issued several share-based employment participation programs. Employees have received stock options that entitle them to the subscription of MOLOGEN shares under certain conditions and to a previously defined price. MOLOGEN will create the required shares through capital increases, for which it has contingent capital at its disposal. A detailed description of the programs and the contingent capital has been published in the financial statement of December 31, 2004.

In the fiscal year 2005, MOLOGEN for the first time applies the International Financial Reporting Standard IFRS 2, which regulates the accounting and representation of such programs. The current value of the services rendered by the employees is accounted as personnel expense with reference to the current value of the granted options, and as increase of the equity capital reserves. This value is spread over the entire period until the end of the retention period to which the exercise of options is subject.

The current value is determined according to the explicit finite difference method. The following current values have been determined for the programs AOP 2003 and AOP 2004, respectively, in which employees were granted options after the effective date of November 07, 2002 (according to IFRS 2.53):

AOP 2003: 109 thousand €
AOP 2004: 62 thousand €

The current values determined for the programs AOP 2002-I and AOP 2002-II are as stated below. Options from both programs were granted employees before the effective date stated above, and were therefore not accounted. The current values were determined following the Black-Scholes model:

AOP 2002-I: 190 thousand €
AOP 2002-II: 25 thousand €

The current value of the programs AOP 2003 and AOP 2004, spread over the period from November 08, 2002 to December 31, 2004, was accounted as of January 01, 2005 as equity adjustment. Offsetting and reconciliation is as follows:

	thousand €
Equity according to IFRS as of Dec 31, 2004	3,946
First-time application of IFRS 2 -stock options-	
Balance carried forward to new account	-95
Capital reserve	95
Equity capital according to IFRS as of Jan 01, 2005	3,946

Personnel expenses accounted for the period from January 01 to December 31, 2005 amount to 96 thousand €. Options were issued or exercised during this period.

Stock options (overview)

	2005		2004	
	Average exercise price per share (€)	Options (units)	Average exercise price per share (€)	Options (units)
As of Jan 01	3.68	449,550	4.20	322,550
Gewährt	5.14	150,000	2.40	140,000
Verfallen	2.53	13,333	2.65	13,000
Ausgeübt	4.24	301,717	0.00	0
Abgelaufen	0.00	0	0.00	0
As of Dec 31	3.92	284,500	3.68	449,550

G. Other financial liabilities

Other financial liabilities for the fiscal year amount to 85 thousand €, comprised of rental liabilities and pledges (80 thousand €) and leasing liabilities (5 thousand €).

In the fiscal year 2004, Vivotecnia signed a contract for the lease of technical plant and equipment. The asset's net book value of the plant is 18 thousand € (2004: 21 thousand €), the total sum of the leasing payments including interest (excluding VAT on payments and interest) until the termination of the contract in the fiscal year 2008 is 22 thousand € (5 thousand € of these in the fiscal year 2006, and 9 thousand € in the fiscal years 2007 through 2008, respectively). The obligation for leasing payments terminates at the end of the fiscal year 2008, after that, Vivotecnia has a purchase option.

The company has signed a joint venture agreement to participate in a joint venture under the name of INMOG in Saudi Arabia with a participating interest of 15 %. Capital demands on MOLOGEN were determined at 5 million €, the first half of which to be held in trust until INMOG is registered as permanent establishment of JIDCO in the Riad trade register in the Kingdom of Saudi Arabia. To this date, 555 thousand € have been paid by MOLOGEN to the trustee. Financing of the remaining amount will be decided on no later than one year after INMOG is registered. INMOG has not yet been registered.

H. Other information

Information on the Board of Directors

The following persons were members of MOLOGEN's Board of Directors during the reporting period:

- Prof. Dr. Burghardt Wittig, university professor, Berlin
- Dr. Matthias Schroff, graduate in biochemistry, Berlin
Dr. Matthias Schroff was appointed on August 01, 2005
- Dirk Simon, graduate computer scientist, Berlin
Dirk Simon was appointed on September 01, 2005.
- Matthias Reichel, graduate in economy, Berlin
Mr. Reichel's appointment ended on July 31, 2005.

Fixed compensations of the Board of Directors amounted to 101 thousand € in the fiscal year 2005 (2004: 254 thousand €). Variable compensations amounted to 330 thousand € (2004: 120 thousand €). Advance payments on the date of the financial statement amount to 15 thousand €..

Information on the Supervisory Board

The following persons were members of MOLOGEN's Supervisory Board during the reporting period:

- Dr. Matthias P. Schlichting, lawyer, Hamburg (chairman)
(membership in other supervisory bodies: Clansiling AG, Hamburg, chairman of the Supervisory Board until December 22, 2005)
- Gregor Kunz, auditor and accountant, Berlin
(membership in other supervisory bodies: none)
- Prof. Dr. Hans Lutz, university professor, Zurich, Switzerland
(membership in other supervisory bodies: none)

Compensations of the Supervisory Board amounted to 5 thousand € in 2005 (2004: 5 thousand €). Compensations for consultation services amounted to 0 € (2004: 0 €).

Information on current legal disputes

During the past twelve months, the company was involved in the following lawsuit:

Legal challenge filed by the Schutzvereinigung aktienrechtlicher Minderheitsbeteiligungen e.V. (S.a.M., "protective union of minority interest shares according to stock corporation law") with the Berlin district court. The legal action was filed on July 06, 2005. The subject of the legal challenge is the decision of the shareholders' meeting of June 09, 2005, made concerning agenda item 8: authorization to issue convertible bonds and/or equity warrants with a total par value of up to 10 million € and a maturity of up to 10 years, and to grant conversion rights into up to 2,468,932

company shares). Oral proceedings took place on November 30, 2005. The court granted the case and declared the decision on agenda item 8 null and void. So far, no legal action was taken against this ruling. In this lawsuit, MOLOGEN is represented by Stefan Aldag, lawyer, of Gassner, Stockmann & Kollegen, Berlin.

The company is not involved in any further lawsuit or arbitration proceedings

Information on relevant events after the reporting date

After the expiration of the reporting period, MOLOGEN has terminated the joint venture INMOG with Arab business partners. The joint venture was formed to market the cell-based gene therapeutic for the treatment of cancer developed by MOLOGEN AG in the Middle East, and received an exclusive license from MOLOGEN for this purpose. The turnover expected for the past year could not be reached until the date of termination.

Declaration of the Board of Directors on the German Corporate Governance Code

In accordance with § 161 of the German Stock Companies Act, the Board of Directors and Supervisory Board of MOLOGEN AG have published their statement regarding conformity with the German Corporate Governance Code for the year 2005 on April 14, 2005 on the company's website, making it thus available to all shareholders, as well as in the annual report for the fiscal year 2004. The declaration for the year 2006 is expected to be published on the company's website in March 2006 as well as in the 2005 annual report.

Berlin, March 21, 2006

Mologen AG, Berlin
Board of Directors

Auditor's Report

We have audited the consolidated financial statements prepared by Mologen AG for the fiscal year 2005, comprised of the balance sheet, the consolidated statement of profit and loss, the statements of changes in equity, the statement of cash flows, the annexes, as well as the group management report. The reporting period for these statements was January 01, 2005 to December 31, 2005. The Board of Directors of Mologen AG is responsible for the preparation of both the consolidated financial statement and the group management report in accordance with IFRS as applicable in the EU and the supplemental applicable regulations stated in § 315 a, section 1 of the German Commercial Code. It is our task to give an opinion, based on our audit, of the consolidated financial statement and the group management report.

We have audited the consolidated financial statement in accordance with § 317 of the German Commercial Code and under consideration of the German auditing principles as defined by the Institut der Wirtschaftsprüfer in Deutschland e.V., Düsseldorf. These require that the audit must be planned and conducted in such a way that all instances of incorrectness and violations will be detected with certainty that have a direct impact on the representation of the company's assets, financial status and result situation in the consolidated financial statement under consideration of all applicable reporting regulations, as well as in the group management report. The definition of the auditing process takes into consideration the knowledge about the company's business activities and economic and legal environment, and expectations concerning possible errors. The effectiveness of the internal control systems as well as evidence supporting the information given in the consolidated financial statement and the group management report were examined mainly on a random sample basis. The audit comprises evaluations of the following: the financial statements of all companies included in the consolidated financial statement, the definition of the circle of consolidation, the applied accounting and consolidation principles and essential assessments by the Board of Directors, and the overall view of both consolidated financial statement and group management report. We believe that our audit provides a sufficiently secure basis for our appraisal.

Our audit has not led to any objections on our part.

Based on the insights gained from the audit, it is our opinion that the consolidated financial statement of Mologen AG conforms to the IFRS as applicable in the EU and to the supplemental applicable regulations stated in § 315 a, section 1 of the German Commercial Code. In accordance with these standards and regulations, the consolidated financial statement of Mologen AG provides a true and fair view of the company's assets, financial status, and result situation. The group management report is consistent with the consolidated financial statement, presents a truthful view of the company's situation, and gives a realistic and appropriate representation of the chances and risks of the future development.

Without limiting this opinion, we'd like to refer to the Board of Directors' remarks in the group management report, in particular the comments in the section "Risk Report."

Berlin, March 21, 2006
Röls WP Partner AG
Wirtschaftsprüfungsgesellschaft