

I) EXECUTIVE BOARD AND SUPERVISORY BOARD

(67) Executive Board

Changes in the Executive Board

With effect from October 1, 2012, the Supervisory Board appointed Peter Llewellyn-Davies as member of the Executive Board of Medigene AG. He succeeded Arnd Christ as Chief Financial Officer, who stepped down from the Company's Executive Board on September 19, 2012.

Remuneration of the Executive Board

Remuneration of the members of the Executive Board totaled €1,035 thousand in the fiscal year ended (2011: €944 thousand), including pension expenses of €52 thousand (2011: €48 thousand) and vehicle leasing costs for company cars of €31 thousand (2011: €26 thousand). In addition, stock options with a fair value of €34 thousand (2011: €33 thousand) were issued to the Executive Board.

In fiscal year 2012, Medigene made a payment of €6 thousand (2011: €6 thousand) to the benevolent fund in connection with a pension commitment to a former member of the Executive Board.

Pursuant to point 2.2.1 (II) of the German Corporate Governance Code, the Annual General Meeting may pass a resolution to approve the remuneration system for Executive Board members. The resolution approving the current remuneration system was passed at the Annual General Meeting on May 11, 2010. A majority of 96% of the share capital represented adopted the remuneration system for Executive Board members.

Report on the remuneration system for members of the Executive Board of Medigene AG

The full Supervisory Board is responsible for setting the remuneration of Medigene AG's Executive Board members. It is regularly reviewed, taking into account the provisions relating to the Supervisory Board as per section 87 (I) and (II) of the German Stock Corporation Act (AktG) and the recommendations of the German Corporate Governance Code.

The Supervisory Board resolved adjustments in light of the German act on appropriate management board remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung, VorstAG), which came into force on August 5, 2009. At the Annual General Meeting 2010, the Executive and Supervisory Boards presented the current

remuneration system for Executive Board members. It was adopted by a majority of 96% of the share capital represented. The remuneration system has been implemented in all current employment contracts for Executive Board members. It is described as follows:

The amount and structure of the remuneration of Executive Board members depend on the respective responsibilities of each Executive Board member, the Company's economic and financial position and the sustained growth of the Company as well as common practice regarding remuneration, taking into account the amount and structure of the remuneration which is paid to others by the Company and that paid in similar companies.

In addition, remuneration is based on the individual performance of Executive Board members as well as the achievements of the Executive Board as a whole. Remuneration is designed as an incentive for achieving sustainable corporate growth and a sustained increase in the Company value.

Total remuneration comprises fixed and variable components as well as other benefits, as described below:

a) Fixed remuneration

Each member of the Executive Board receives fixed remuneration, which is not performance-related and is paid in monthly installments. The amount of the fixed remuneration is determined on the basis of the principles described above.

b) Variable remuneration

1) Annual performance-related remuneration

In addition to fixed remuneration, Executive Board members are entitled to variable remuneration, which is dependent on the achievement of several targets specified by the Supervisory Board in advance. The annual performance-related remuneration amounts to 50% of fixed remuneration if 100% of the targets are met and may be a maximum of 75% of fixed remuneration.

(1) Setting of objectives

The Supervisory Board sets annual objectives, both comprehensively for all Executive Board members and, in addition, separately for each member of the Executive Board. The objectives are weighted by the Supervisory Board.

(2) Establishing the amount of annual performance-related remuneration

The individual objectives set by the Supervisory Board are allocated to one of three possible objectives achievement scenarios: low case, base case and best case.

- The low case scenario corresponds to a 50% achievement of objectives, the base case to 100% and the best case to 150%.
- In the event that achievement of objectives is below the low case threshold, no variable remuneration is paid. If the achievement of objectives is in the range between the low case and base case, variable remuneration increases on a straight-line basis according to the objective percentage achieved. If the target achievement is in the range between base case and best case, there is no straight-line increase and only the fulfillment of the best case scenario corresponds to a objective achievement of 150%. Objective achievement which surpasses the best case is not reflected in terms of higher remuneration. To this extent, variable remuneration is capped.
- The amount of the annual performance-related remuneration is calculated on the basis of the objective achievement percentage in relation to the specific targets, taking into account the weighting of the relevant objective.

(3) Short-term and long-term components of annual performance-related remuneration

- 65% of the annual performance-related payment granted is paid after the Company's financial statements for the relevant fiscal year have been adopted. Payment of the remaining 35% of the annual performance-related remuneration granted in a specific fiscal year is deferred for a period of three years.
- At the end of this three-year period, the Supervisory Board decides whether and to what extent sustained corporate growth can be affirmed. Based on this decision, the Supervisory Board resolves whether and to what extent the remaining 35% of the relevant annual performance-based remuneration will be paid to the respective Executive Board member with appropriate interest.
- The Supervisory Board's decision regarding sustained corporate growth is primarily based on the long-term trend in the Company value and therefore also the share price of the Company's shares. The members of the Executive Board thus participate in the Company's long-term growth on the basis of this remuneration component, and they also share in any negative developments.

2) Stock options

- In addition, Executive Board members are granted stock options on the basis of the Company's stock option program. Stock options represent another long-term remuneration component. They are aimed at providing a performance incentive which is geared to sustainable long-term corporate growth.
- Stock options are initially granted to each Executive Board member within the first year of their joining the Company. Subsequently, Executive Board members receive further stock options every year. The exercise price corresponds to the average closing price of the last 30 trading days prior to the issue of the stock option plus a 20% premium.
- Executive Board members may exercise their stock options at the earliest after a waiting period of four years, starting from the date of allotment of the relevant subscription right. The stock options have a contractual term of ten years.
- Based on the principles stated in this paragraph relating to the remuneration system, each Executive Board member receives a specific number of stock options, which is separately set for each member every year and ranges from 20,000 to 40,000 stock options.

c) Other benefits

In addition to the above-mentioned remuneration components, members of the Executive Board are granted additional benefits, in particular

- a company car,
- reimbursement of business travel expenses,
- accident insurance cover and payment of the relevant insurance premiums,
- D&O insurance with excess according to the statutory minimum amount and
- payment of an amount of €2 thousand per month as a pension contribution.

The proportional structure of annual performance-related remuneration with a three-year sustainability component and the terms of stock options with a four-year waiting period prior to exercising the stock options create a significant incentive to achieve sustained corporate growth, ensuring a balanced mix of short-term and long-term remuneration components.

d) Special termination rights in the event of a change in control

The contracts of employment for Executive Board members Dr. Frank Mathias and Peter Llewellyn-Davies include special termination rights for both the Company and the Executive Board members in the event of a change in control.

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

A change in control within the meaning of the contractual agreement valid for Peter Llewellyn-Davies exists in the event of direct or indirect purchase of Company shares by a third party, which results in the third party directly or indirectly holding at least 30% of the Company's voting rights within the meaning of Section 30 of the German Securities Acquisition and Takeover Act (WpÜG).

In the event of a change in control, the Company has a special termination right for a period of one year following the date of the change in control in each case.

The above-mentioned Executive Board members each have a special termination right for a period of one year after the date of the change in control if this change results in an unacceptable shift in the previous duties and responsibilities of the relevant Executive Board member (budget, number of employees supervised and his role on the Board), or if the Company informs him that his appointment as Executive Board member will not be renewed and denial of such extension is not based on significant cause justifying extraordinary termination of the relevant Executive Board member's contract for which he bears responsibility.

If the term of office of Executive Board member Dr. Frank Mathias comes to an end as a result of the Company exercising its special termination right referred to above, he will be entitled to receive a severance payment in the amount of the gross remuneration up to the regular end of his contract, a pro rata temporis gross bonus (without stock options) up to the regular end of the term of the Executive

Board member's contract on the basis of the average annual bonus of the past three full years prior to termination of that contract and a severance payment amounting to 2.5 times the annual remuneration owed to him (without stock options). This severance payment may exceed neither the sum of three times the total annual remuneration plus the average annual bonus agreed at the time of the termination of employment, nor 1.5 times the remuneration anticipated for the remaining term of the employment contract, nor the sum of €750 thousand (caps). However, the Company's Supervisory Board may at its discretion waive the last mentioned cap in recognition of Dr. Mathias' outstanding achievements and extraordinary commitment in the situation leading to this special termination.

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

If the term of office of Executive Board member Peter Llewellyn-Davies comes to an end as a result of the Company exercising its special termination right referred to above, he will be entitled to receive a severance payment in the amount of the gross remuneration up to the regular end of his contract, a pro rata temporis gross bonus (without stock options) up to the regular end of the term of the Executive Board member's contract on the basis of the average annual bonus of the past three full years prior to termination of that contract and a severance payment amounting to 2.5 times the annual remuneration owed to him (without stock options). This severance payment may exceed neither the sum of three times the total annual remuneration plus the average annual bonus agreed at the time of the termination of employment, nor 1.5 times the remuneration anticipated for the remaining term of the employment contract, nor the sum of €390 thousand (caps).

In the event that Executive Board member Peter Llewellyn-Davies resigns under the special termination conditions listed above, he will be entitled to receive a severance payment in the amount of three times the gross monthly sum for every completed year of his membership of the Company's Executive Board. The gross monthly amount is comprised of one twelfth of the actual gross remuneration at the time of resignation and one twelfth of the average annual bonus. The severance payment may exceed neither the total of 36 gross monthly salary payments, nor 1.5 times the remuneration anticipated for the remaining term of the employment contract (caps). The minimum severance payment amounts to six gross monthly salary payments (lower limit).

EXECUTIVE BOARD COMPENSATION 2012

EXECUTIVE BOARD MEMBER	FIXED COMPENSATION	VARIABLE AND PER- FORMANCE BASED COMPONENTS ¹⁾	FRINGE BENEFIT ²⁾	VARIABLE COMPONENTS IN THE FORM OF STOCK OPTIONS	
				NUMBER OF STOCK OPTIONS	FAIR VALUE OF OPTIONS
	IN € THOUSAND	IN € THOUSAND	IN € THOUSAND		IN € THOUSAND
Dr. Frank Mathias Chief Executive Officer	375	187	40	35,000	17
Arnd Christ Chief Financial Officer (until September 19, 2012)	195	97	34	26,250	13
Peter Llewellyn-Davies Chief Financial Officer (since October 1, 2012)	65	33	9	7,500	4
Total	635	317	83	68,750	34

¹⁾ On the basis of the accruals for 2012 (without discounting) in the event of 100% payment.

²⁾ Fringe benefits include pension expenses, and vehicle leasing for the members of the Executive Board.

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

Dr. Frank Mathias

External positions

German supervisory board positions:

→ Faller KG, Waldkirchen

Positions outside Germany:

→ Catherex, Inc., USA

Arnd Christ (until September 19, 2012)

External positions

German supervisory board positions:

→ DNS Beteiligungsgesellschaft mbH, Bessenbach

Positions outside Germany:

→ Immunocore Ltd., United Kingdom (until September 18, 2012)

Peter Llewellyn-Davies (since October 1, 2012)

External positions

Positions outside Germany:

→ Immunocore Ltd., United Kingdom (since October 1, 2012)

(68) Supervisory Board

Supervisory Board remuneration

Supervisory Board remuneration amounted to €255 thousand in 2012 (2011: €229 thousand). The total remuneration paid to the members of the Supervisory Board comprises a fixed portion as well as meeting attendance fees. In addition, expenses are reimbursed. The greater scope of activities of the Supervisory Board Chairman and his Deputy are taken into account and reflected accordingly by higher remuneration. Details regarding the subscription rights of members of the Supervisory Board and Executive Board are provided in [note \(69\)](#). No advances were paid to members of the Supervisory Board and Executive Board.

SUPERVISORY BOARD REMUNERATION 2012

SUPERVISORY BOARD MEMBER	FIXED COMPENSATION IN € THOUSAND	FEES FOR ATTENDING MEETINGS IN € THOUSAND
Prof. Dr. Ernst-Ludwig Winnacker Chairman	48	20
Prof. Dr. Norbert Riedel Deputy Chairman	36	15
Dr. Pol Bamelis Member	24	10
Dr. Mathias Albert Boehringer Member	24	10
Dr. Thomas Werner Member	24	10
Klaus Kühn Member	24	10
Total	180	75

Supervisory Board members of Medigene AG:

Prof. Dr. Ernst-Ludwig Winnacker

since November 26, 1996

Chairman of the Supervisory Board

Secretary General of Human Frontier Science Program (HFSP),

Strasbourg, France

External positions

German supervisory board positions:

→ Bayer AG, Leverkusen

→ Wacker Chemie AG, Munich

Prof. Dr. Norbert Riedel

since October 27, 2003

Deputy Chairman of the Supervisory Board

Corporate Vice President, Chief Scientific Officer, Baxter International, Inc., Deerfield, Illinois, USA

External positions

Positions outside Germany:

→ ARIAD Pharmaceuticals, Inc., Cambridge, MA, USA

Dr. Pol Bamelis

since May 23, 2001

former Executive Board member, Bayer AG, Leverkusen, Germany

External positions

German supervisory board positions:

→ Hemacon GmbH, Düsseldorf

Positions outside Germany:

→ Actogenix N.V., Belgium

→ PolyTechnos Ltd., Guernsey, United Kingdom

Dr. Mathias Albert Boehringer

since July 16, 2008

Diploma in business administration, Ingelheim, Germany

External positions

German supervisory board positions:

→ Boehringer Ingelheim Gesellschafterausschuss, Ingelheim

→ Phenex Pharmaceutical AG, Ludwigshafen

→ Phorms Management AG, Berlin

Dr. Thomas Werner

since February 2, 2010

Freelance management consultant, Utting am Ammersee, Germany

External positions

German supervisory board positions:

→ 4SC AG, Planegg/Martinsried

→ SuppreMol GmbH, Planegg/Martinsried

→ BSN Medical GmbH, Hamburg (since September 2012)

→ Blackfield AG, Köln (since September 2012)

Positions outside Germany:

→ SkyePharma plc., United Kingdom

→ Basilea Pharmaceutical Ltd., Switzerland

Klaus Kühn

since August 4, 2011

former Executive Board member, Bayer AG, Leverkusen, Germany

External positions

German supervisory board positions:

→ Flossbach von Storch AG, Köln

→ Hella KGaA Hueck & Co., Lippstadt

→ 4SC AG, Planegg/Martinsried (since July 2012)

(69) Directors' holdings and notes on subscription rights

MEMBER	SHARES		OPTIONS	
	DEC. 31, 2012	DEC. 31, 2011	DEC. 31, 2012	DEC. 31, 2011
Prof. Dr. Ernst-Ludwig Winnacker Chairman of Supervisory Board, Co-founder	274,476	274,476	0	0
Prof. Dr. Norbert Riedel Deputy Chairman of Supervisory Board	3,300	3,300	0	0
Dr. Pol Bamelis Supervisory Board member	400	400	0	0
Dr. Mathias Albert Boehringer Supervisory Board member	0	0	0	0
Dr. Thomas Werner Supervisory Board member	0	0	0	0
Klaus Kühn Supervisory Board member	0	0	0	0
Total Supervisory Board	278,176	278,176	0	0
Dr. Frank Mathias Chief Executive Officer	6,000	6,000	162,500	127,500
Arnd Christ Chief Financial Officer (until September 19, 2012)	5,000	5,000	70,528	44,278
Peter Llewellyn-Davies Chief Financial Officer (since October 1, 2012)	6,000	-	7,500	-
Total Executive Board	17,000	11,000	240,528	171,778